

Audit Committee

Wednesday, 08 June 2016 at 10:30

County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

- 1 To note the appointment by the County Council on 12 May 2016 of Councillor Keith Walker as Chair of the Committee and Councillor Sheila Place as Vice-Chair
- 2 To note membership of the Committee Councillors Reg Adair, John Clarke, Tom Hollis, John Handley, David Kirkham, Ken Rigby and John Wilmott.
- 3 Minutes of the last meeting held on 16 March 16 3 - 6
- 4 Apologies for Absence
- 5 Declarations of Interests by Members and Officers:- (see note below)
 - (a) Disclosable Pecuniary Interests
 - (b) Private Interests (pecuniary and non-pecuniary)
- 6 Mandatory Inquiries - 2015-16 Statement of Accounts 7 - 26
- 7 Changes to Nottinghamshire County Council's 2015-16 Statement of Accounts 27 - 30
- 8 KPMG - Audit Fees 2016-17 & Progress Report 31 - 54
- 9 Draft Annual Governance Statement 2015-16 55 - 68
- 10 Annual Fraud Report 2015-16 69 - 78

11	Internal Audit Follow-up Procedure	79 - 86
12	Internal Audit Annual Report 2015-16	87 - 116
13	Financial Regulation Waivers 2015-16	117 - 144
14	Procurement Contracts and Update on the role of the Project Manager	145 - 148
15	Work Programme	149 - 154

Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Sarah Ashton (Tel. 0115 977 3962) or a colleague in Democratic Services prior to the meeting.
- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

Meeting	AUDIT COMMITTEE
Date	16 March 2016 (commencing at 10.30 am)

membership

Persons absent are marked with `A`

COUNCILLORS

Keith Walker (Chairman)
Sheila Place (Vice-Chairman)

Reg Adair		David Kirkham
John Clarke		Ken Rigby
Tom Hollis	A	John Wilmott
John Handley		

ALSO IN ATTENDANCE

Councillor Darren Langton - Observer
Tony Crawley - KPMG LLP

OFFICERS IN ATTENDANCE

Sarah Ashton)	
Nigel Stevenson)	
Rob Disney)	Resources
Glen Bicknell)	
Keith Palframan)	

MINUTES OF THE LAST MEETING HELD ON 2 DECEMBER 2015

The minutes of the last meeting of the Committee held on 2 December 2015, having been circulated, were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Wilmott (other).

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

AUDIT OF THE TEACHER'S PENSION RETURN 2014/15

Tony Crawley (KPMG's Director of Audit) and Glen Bicknell (Senior Accountant) presented the audit of the teacher's pension return 2014/15.

RESOLVED 2016/001

Members noted the Audit of the Teacher's Pension Return 2014/15 and the associated audit fees

KPMG – EXTERNAL AUDIT PLAN 2015/16

Tony Crawley (KPMG's Director of Audit) explained to Members the external auditors' plan for the 2015/16 audit.

RESOLVED 2016/002

That the KPMG External Auditors' Audit Plan for the 2015/16 be noted.

HIGHWAYS NETWORK ASSET – REVISED VALUATION METHODOLOGY

Glen Bicknell (Senior Accountant) updated Members on the implementation of the CIPFA transport infrastructure asset code and explained the potential impact this will have on the 2016/17 statement of accounts.

RESOLVED 2016/003

That the overall level of preparedness and the likely impact of the Transport Infrastructure Asset Code on the Authorities Financial Statements for 2016/17 be noted.

STATEMENT OF ACCOUNTS 2015/16 – ACCOUNTING POLICIES

Glen Bicknell (Senior Accountant) presented the proposed accounting policies used in creating the Authorities statement of accounts for 2015/16 and explained the changes to the accounting policies.

RESOLVED 2016/004

That the changes to the Authorities accounting policies be approved.

INTERNAL AUDIT PLAN 2016/17

Rob Disney (Head of Internal Audit) informed Members of the proposed internal audit plan for the 2016/17 financial year.

RESOLVED 2016/005

That the Internal Audit Plan for the 2016/17 be noted.

AUDIT COMMITTEE TRAINING

Rob Disney (Head of Internal Audit) explained what the Audit Committee Training would entail and offered Members the opportunity to attend.

RESOLVED 2016/006

- a) Members approved the Audit Committee Training offered by KPMG.
- b) Proposed date and venue to be e-mailed to Members once final arrangements had been made

WORK PROGRAMME

Rob Disney (Head of Internal Audit) presented the work programme.

RESOLVED: 2016/007

Members requested the following briefing subjects be added to the work programme:

7 September 2016, to provide an update on the progress being made with implementing Internal Audit's high priority recommendations.

7 December 2016, to provide an updated position with the Council's Private Finance Initiative contracts.

That the work programme be noted.

The meeting closed at 11.07 am

CHAIRMAN



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

MANDATORY INQUIRIES – 2015-16 STATEMENT OF ACCOUNTS

Purpose of the Report

1. To inform Members of the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit of the County Council's accounts for 2015/16 and to allow Members to comment on the response related to 'Those Charged with Governance'.

Information and Advice

2. As part of the annual approach taken by our External Auditors, KPMG seek responses to matters concerning the Council's approach and reporting on a number of areas, in particular related to themes surrounding fraud, litigation, laws and regulations, together with some areas specific to the accounts such as related parties and estimates used in the accounts. The responses to these questions form part of the overall audit and will inform the approach taken by KPMG to the audit of the Council's Statement of Accounts for 2015/16.
3. A number of what are termed mandatory questionnaires completed by Internal Audit, Legal Services and Management are attached to this report for information to Members which set out the responses to the inquiries made on the themes set out above.
4. Also attached for Members to comment upon is the questionnaire for completion by the Audit Committee as 'Those Charged with Governance'.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members receive, and comment upon, the inquiries for those charged with governance for the 2015/16 audit of the Statement of Accounts.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:
Glen Bicknell, Senior Accountant, Financial Strategy and Compliance

Constitutional Comments (HD 24/05/2016)

6. The recommendation within the report falls within the delegation to the Audit Committee.

Financial Comments (GB 24/05/2016)

7. There are no direct financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Inquiries of Management

Legal

Name of Interviewee(s): Heather Dickinson

Date(s) of Interview: 8 June 2016

Required Inquiries

Category	Short Description	Detailed Description	Comments
Fraud	REQUIRED Management's assessment of fraud risks including the nature, extent and frequency of such assessment	What are your views about fraud risks at the entity?	Current fraud risks have been assessed as part of the Annual Fraud Report 15/16 which is due to be reported to the Audit Committee in June 2016.
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	Yes, details of the cases arising in 2015/16, and the actions taken to tackle them, are set out in the Annual Fraud Report 2015/16.
Litigation, claims and assessments	REQUIRED In-house legal counsels	Is the entity involved in any litigation, claims or assessments (including those defended by insurance companies)? - What is your assessment of such matters? - Which litigation, claims and	Yes. Insurance claims managed by Risk and Insurance together with Council insurers. Non-insured cases managed by Legal Services together with appropriate external advisory support where appropriate with claims being pursued or settled on

Inquiries of Management

Category	Short Description	Detailed Description	Comments
		assessments involving the entity may have a material effect on the financial statements and/ or may require disclosure in the financial statements? Note: Inquire of in-house legal counsel	the basis of legal advice in accordance with provisions within Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually to Financial Services for reporting in annual statement of accounts.

Inquiries of Management

Internal Audit

Name of Interviewee(s): Rob Disney

Date(s) of Interview: 8 June 2016

Required Inquiries

Category	Short Description	Detailed Description	Comments
Fraud	REQUIRED Fraud-related activities by the internal audit function	<p>What fraud related activities have been performed or are planned by the internal audit function?</p> <p>If any fraud related activities are planned or performed:</p> <ul style="list-style-type: none"> - What anti-fraud control deficiencies have been identified by the internal audit function? - What fraud related reports or communications have been made by the internal audit function? - Have management and those charged with governance responded appropriately to such reports and communications? 	<p>A revised Counter-Fraud and Counter-Corruption Policy and Strategy and Fraud Response Plan were approved by the Policy Committee, and these have been publicised on the intranet and public website.</p> <p>Internal Audit has engaged with the following pro-active counter-fraud activities during 2015/16:</p> <ul style="list-style-type: none"> - Compilation of an annual fraud report (currently in progress) - Payroll analytical review (currently in progress) - Co-ordination of the council's review of National Fraud Initiative data matches - Review and onward distribution of relevant fraud alerts from a number of sources (including the National Anti-Fraud Network and the National Fraud Intelligence Bureau. <p>All suspected irregularities are required to be reported to Internal Audit, for determination on how to proceed. A number of reports have been issued in relation to suspected</p>

Inquiries of Management

Category	Short Description	Detailed Description	Comments
			<p>fraud, as well as referral to Police in appropriate cases. Management take suspected cases seriously and adopt a zero tolerance approach, as required by the Counter-Fraud Policy.</p> <p>Audit reports issued on the planned work for 15/16 contain a range of recommendations, ranked from low to high priority. Many of the recommendations made are designed to counter perceived vulnerabilities to fraud risks. Management has responded very positively to the recommendations raised by Internal Audit during 2015/16.</p>
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	<p>Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets?</p> <p>If so, have the instances been appropriately addressed and how have they been addressed?</p>	Internal Audit has been involved to a greater or lesser degree in a number of cases involving suspected fraud. All cases have been concerned with relatively low values (under £100k). They have been addressed by either referring to the Police, investigation by internal audit or investigation by management.
Fraud	REQUIRED Internal audit's assessment of fraud risks	<p>What is internal audit function's assessment of the risks that the financial statements may be materially misstated due to fraud?</p> <p>What fraud risks have been identified?</p> <p>Has management and those charged with governance responded appropriately to the identified risks?</p>	The assessment is that the risk is low, given the high value (£10m) to constitute material misstatement and the range of officers involved in the Authority's control framework, and the Authority's culture.
Fraud	REQUIRED	Are you aware of any instances of	The Financial Regulations make

Inquiries of Management

Category	Short Description	Detailed Description	Comments
	Management's assessment of fraud risks including the nature, extent, and frequency of such assessment	management override of controls? If so, what is the nature and circumstances of such overrides?	provision for the rules to be waived when appropriate. The Section 151 officer / Head of Procurement / Head of Legal Services are responsible for approving any waiver. An annual report is made to the Audit Committee, setting out all waiver requests made during the year.

Inquiries of Management

Management

Name of Interviewee(s):

Date(s) of Interview:

Required Inquiries

Category	Short Description	Detailed Description	Comments
Operations	REQUIRED Changes in the entity's business or environment including internal control	Have there been, or does the entity expect, any significant changes in its business or environment, including internal control?	There have been no major changes to the structure of the Authority through 2015/16 or any changes to major systems or internal controls. There continues to be financial issues facing the Authority like all Local Government, the Authority has plans in place to address.
Fraud	REQUIRED Communications to employees regarding management's views on business practices and ethical behaviour	How does management communicate its views about acceptable business practices and ethical behaviour to employees?	The Authority has a Code of Conduct for employees. The Code sets out in detail the standards of conduct required of its employees. See Section D35 of the Personnel Handbook.
Laws and regulations	REQUIRED Legal and regulatory frameworks applicable to the entity	What legal and regulatory frameworks are applicable to the entity?	The Council is governed by all national and EU legislation and rules applicable to all upper tier public Local Authorities in England.
Litigation,	REQUIRED	What policies, procedures and	Litigation claims and assessments

Inquiries of Management

Category	Short Description	Detailed Description	Comments
claims and assessments	Identifying and addressing litigation, claims and assessments	controls has management established for identifying, evaluating, accounting for and disclosing litigation, claims and assessments?	are received and managed by the Council’s Legal Section or Risk and Insurance section depending on whether insured risks or not. Annual statement in accounts regarding contingent assets and liabilities following enquiries of staff in service departments, Legal Services and Risk and Insurance. Provisions in Constitution and Financial Regulations regarding settlement of claims.
Fraud	REQUIRED Programs and controls to prevent, detect and deter fraud - monitoring	<p>What programs and controls has management established to prevent, detect, deter and mitigate fraud?</p> <p>How does management monitor these programs and controls?</p>	Management has a comprehensive set of internal controls to prevent fraud. The requirements are set out in Financial Regulations and these are complemented by more detailed guidance at departmental level. A comprehensive rolling programme of internal audit work is in place to provide assurance that these controls are in place, effective, and complied with. Staff are reminded of the need for vigilance from time to time, using CBT and newsletters. The Authority has a whistle blowing policy with reminders to staff and monitoring of reports and resulting outcomes. The Annual Fraud Report 15/16 sets out how management has responded to fraud cases arising over the past 12 months.
Fraud	REQUIRED Monitoring of operating locations or	What is the nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial	Management monitor their individual areas on an on-going basis and report to their respective management teams. There is a requirement to report any

Inquiries of Management

Category	Short Description	Detailed Description	Comments
	business segments for fraudulent activities	reporting?	suspected irregularities to Internal Audit, who will determine how to proceed in individual cases, including reporting to police, investigation by internal audit and investigation by management.
Fraud	REQUIRED Monitoring of operating locations or business segments with risk of fraud	Are there particular operating locations or business segments for which a risk of fraud may be more likely to exist?	Operating locations with high turnover and cash income are recognized as having higher risk. Risks from payments and payroll systems are high due to value. A Fraud Risk Assessment has been developed and this will be kept under review during the coming year.
Fraud	REQUIRED Management's process for identifying and responding to fraud risks	What process has been established to identify and respond to fraud risks? Note: consider inquiries about whether the process takes into consideration: --Fraud risk related to specific classes of transactions, account balances or disclosures; --Possibility of manipulation of information technology; --Incentive/ pressure, opportunity and attitude/ rationalization for fraud; --Fraud schemes common in the industry/ market?	A range of processes are used. These include close analysis of all the Authority's activities and the risk they pose in terms of loss through error / fraud/ reputation, exchange of information with other county councils, local district councils and neighbouring authorities, consideration and dissemination of information provided by NAFN, past experience of fraud in the Authority and regular scanning of the media to identify losses / issues in other organisations. During 2015/16, the Council adopted a revised Counter-Fraud and Counter-Corruption Strategy, along with a published Fraud Response Plan.
Fraud	REQUIRED Management's process for	What is the nature and extent of the communications between management and those charged with governance regarding	A general review of fraud risk is completed as part of the annual planning process for the internal audit plan. This is reported to the

Inquiries of Management

Category	Short Description	Detailed Description	Comments
	identifying and responding to fraud risks – communications between management and those charged with governance	management’s process for identifying and responding to fraud risks?	Audit Committee, together with regular updates on progress against the Plan and an Annual Report. The AGS also covers fraud risk and how this is addressed. An Annual Fraud Report 2015/16 is to be presented to the Audit Committee in June 2016.
Fraud	REQUIRED Actual, suspected or alleged instances of fraud	Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	Yes, details of the cases arising in 2015/16, and the actions taken to tackle them, are set out in the Annual Fraud Report 2015/16.
Fraud	REQUIRED Management’s assessment of fraud risks, including the nature, extent and frequency of such assessment	How does management assess the risks that the financial statements may be materially misstated due to fraud? What fraud risks have been identified? What is the nature, extent, and frequency of such assessment? What is the entity's response to identified fraud risks, including controls to mitigate the risks?	A material misstatement would require a fraud of £10m. The key systems which could result in a misstatement of this scale are audited on a rolling programme. The Authority has a broad range of controls in place over the key systems to mitigate the risk of a material misstatement. Current fraud risks have been assessed as part of the Annual Fraud Report 2015/16. This is due to be reported to the Audit Committee in June 2016.

Inquiries of Management

Category	Short Description	Detailed Description	Comments
			A Fraud Risk Assessment has been developed and this will be kept under review during the coming year.
Going concern	REQUIRED Identified events or conditions (and related business risks) that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern	Are there any events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern during the period of assessment used by management or after such period? (Note: the period of management's assessment shall be at least, but not limited to, twelve months from the date of the financial statements being audited, or a longer period of time if required by the applicable financial reporting framework, by law or regulation or by auditing standards)	The report to County Council on 25 th February 2016 included an assessment of all significant business and financial risks and the risk actions/controls applied in mitigating these risks. The formal assessment by the Section 151 Officer took into account these risks in determining their assessment of going concern.
Laws and regulations	REQUIRED Laws and regulations that have a direct effect on material amounts or disclosures in the financial statements	What laws and regulations have a direct effect on the determination of material amounts or disclosures in the financial statements?	The Code of Practice on Local Authority Accounting in the UK.
Laws and regulations	REQUIRED Compliance with legal and	How is the entity complying with the legal and regulatory framework?	Decision making is undertaken by Committees and other meetings of County Council based on reports following a standardised template

Inquiries of Management

Category	Short Description	Detailed Description	Comments
	regulatory framework		with sections covering financial, legal, human rights, equalities implications etc. Each report is checked for compliance prior to publication. In addition each department and service area is aware of the legal and regulatory framework relevant to their areas and appropriately qualified staff are recruited and trained in relevant processes and procedures. There is oversight by relevant government and other agencies tasked with monitoring standards and compliance. Periodic internal audit inspections of each service area. Available legal advice for any casework or individual queries.
Laws and regulations	REQUIRED Compliance with legal and regulatory framework - directives or periodic representations	Are there directives issued by the entity or periodic representations obtained by the entity from management at appropriate levels of authority, concerning compliance with laws and regulations?	Financial Regulations, Constitution, terms and conditions of employment, service related communications to relevant staff about their roles and responsibilities. Also inspections for accreditation purposes by various professional bodies and for the purposes of relevant statutory inspections such as Ofsted etc.
Laws and regulations	REQUIRED Prevention of noncompliance with laws and regulations	What policies, procedures, and controls has management established to prevent instances of noncompliance with laws and regulations, including illegal acts?	Decision making by Committees subject to appropriate advice via standardised committee reports covering relevant issues for consideration. Annual governance statement. Internal Audit procedures, Legal advisory support from in-house and external legal advisors on different areas of service delivery, training and

Inquiries of Management

Category	Short Description	Detailed Description	Comments
			development of staff from both internal and external sources, accreditation with relevant professional bodies, whistle blowing policy, Financial Regulations, contract procedures, complaints procedures, internal and external investigations, HR procedures, terms and conditions of employment including disciplinary procedures etc.
Laws and regulations	REQUIRED Actual, suspected or alleged instances of noncompliance with laws and regulations, including illegal acts	Are you aware of any instances of actual, suspected or alleged noncompliance with laws and regulations, including actual or possible illegal acts?	Internal Audit deal with allegations of fraud or criminal behaviour which is reported to the relevant authorities for investigation. Not aware of any other instances of non-compliance which would be required to be reported to the Council's Monitoring Officer and to the Council if they arose.
Litigation, claims and assessments	REQUIRED Identified litigation and claims	<ul style="list-style-type: none"> - Is the entity involved in any litigation, claims or assessments (including those defended by insurance companies)? - What is management's assessment of such matters? - Which litigation, claims and assessments involving the entity may have a material effect on the financial statements and/ or may require disclosure in the financial statements? 	Yes. Insurance claims managed by Risk and Insurance together with Council insurers. Non-insured cases managed by Legal Services together with appropriate external advisory support where appropriate with claims being pursued or settled on the basis of legal advice in accordance with provisions within Constitution. Any contingent assets or liabilities arising as a result of litigation, claims or assessments are notified annually to Financial Services for reporting in annual statement of accounts.
Related	REQUIRED	Who are the entity's related	Central Government – receive

Inquiries of Management

Category	Short Description	Detailed Description	Comments
parties	Identified related parties, including any changes from the prior period and the nature of the relationships	<p>parties?</p> <p>Are there any changes in related parties from the prior period?</p> <p>- If there are related parties, what is the nature of the relationship between the entity and each related party?</p>	<p>grants/funding. Nottingham and Nottinghamshire Futures Limited, CLASP and SCAPE - shareholders. Pooled arrangements for Integrated Community Equipment. Administering Authority for the Nottinghamshire LGPS.</p> <p>In previous years there were no related parties identified through Chief Officers or Members declarations, however, this has yet to be assessed as part of the 2015/16 closedown.</p>
Related parties	REQUIRED Identified transactions with related parties	<p>Have there been any transactions with the identified related parties during the period, including with management or those charged with governance?</p> <p>- If so, who are the parties, what are the transactions and what is the business rationale or purpose for the transactions?</p>	Analysis yet to be undertaken.
Related parties	REQUIRED Transactions with no accounting recognition	<p>Are there any transactions that are not being given accounting recognition?</p> <p>- If so, what is the business and accounting rationale for no accounting recognition?</p>	All transactions will be recognised in accordance with the Code of Practice on Local Authority Accounting.
Estimate	REQUIRED Estimates - changes in circumstances	<p>Have there been changes in circumstances that may give rise to new or the need to revise existing accounting estimates?</p> <p>Note: the following are examples of changes in circumstances that may give rise to new or the need to revise existing accounting estimates:</p>	<p>There has been one change to the accounting policies as a result of changes to the 2015/16 Code of Practice. Changes to IFRS 13 - Fair Value Measurement requires consideration of how the measurement requirements for assets and liabilities will be applied. There are no further changes to the</p>

Inquiries of Management

Category	Short Description	Detailed Description	Comments
		<ul style="list-style-type: none"> - the entity engaged in new types of transactions that may give rise to accounting estimates - the terms of transactions that give rise to accounting estimates changed - accounting policies relating to accounting estimates changed as a result of changes to the requirements of the applicable financial reporting framework or otherwise - regulatory or other changes outside the control of management occurred that may require management to revise or make new accounting estimates - new conditions or events occurred that may give rise to the need for new or revised accounting estimates 	<p>accounting policies from the previous year or any changes to the critical judgements in applying the accounting policies that will affect accounting estimates.</p>
Accounting Policies	REQUIRED Compliance of accounting policies/ practices	<p>Are there any accounting policies / practices used by the entity in preparing its (consolidated) financial statements that are not:</p> <ul style="list-style-type: none"> - in accordance with the applicable financial reporting framework - appropriate for its business - consistent with accounting policies used in the entity's industry? 	<p>All accounting policies are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.</p>
Related parties	REQUIRED Policies procedures and controls	<p>What policies procedures and controls has management established for identifying related parties and authorizing approving monitoring accounting for and disclosing related party transactions and arrangements including those</p>	<p>All accounting policies are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom.</p>

Inquiries of Management

Category	Short Description	Detailed Description	Comments
		outside the normal course of business?	
Going concern	REQUIRED Managements assessment of the entity's ability to continue as a going concern	<p>Has management made an assessment of the entity's ability to continue as a going concern?</p> <p>If so, what is management's assessment of the entity's ability to continue as a going concern?</p> <p>If not, what is management's basis for the intended use of the going concern assumption?</p>	<p>The County Council on 25th February 2016 set the annual budget, capital programme to 2019/20 and Medium Term Financial Strategy to 2019/20. This report included the formal assessment by the Section 151 Officer on the robustness of the Budget Estimates and the adequacy of the County Council's reserves in accordance with the 2003 Local Government Act. This indicates the Section 151 Officer has considered that the Authority has been assessed as a going concern.</p>

Inquiries of Management

Those Charged With Governance

Name of Interviewee(s): Audit Committee

Date(s) of Interview: 8 June 2016

Required Inquiries

Category	Short Description	Detailed Description	Comments
Fraud	REQUIRED Programs and controls to prevent, detect and deter fraud – oversight by those charged with governance	How do those charged with governance provide effective oversight of the entity's programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?	The Corporate Leadership Team and the Audit Committee are consulted on the Annual Internal Audit Plan. Periodic updates against the Plan are provided. An Annual Report on Internal Audit work is provided. Copies of Internal Audit reports are widely disseminated, including to Corporate Directors, Members and the Operational Manager concerned. A Fraud Risk Assessment has been developed in putting together the Annual Fraud Report 2015/16, and this will be kept under review throughout the coming year.
Fraud	REQUIRED Management's assessment of fraud risks including the nature, extent and frequency of such assessment	What are your views about fraud risks at the entity?	Current fraud risks have been assessed as part of the Annual Fraud Report 2015/16. This is due to be reported to the Audit Committee in June 2016.
Fraud	REQUIRED Actual,	Are you aware of or have you identified any instances of actual,	Yes, details of the cases arising in 2015/16, and the actions taken to

Inquiries of Management

Category	Short Description	Detailed Description	Comments
	suspected or alleged instances of fraud	suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?	tackle them, are set out in the Annual Fraud Report 2015/16.
Laws and regulations	REQUIRED Compliance with legal and regulatory framework	How is the entity complying with the legal and regulatory framework?	The Council has a clear line of responsibility and accountability surrounding compliance with the myriad of National and EU legislation and rules applicable to all upper tier public Local Authorities in England together with other governance arrangements which are set out in the Constitution and Financial Regulations. A number of external bodies, including External Auditors, Ofsted etc. assist in ensuring issues of non-compliance are openly reported to those charged with Governance.



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

**CHANGES TO NOTTINGHAMSHIRE COUNTY COUNCIL'S 2015/16
STATEMENT OF ACCOUNTS**

Purpose of the Report

1. To inform Members of proposed changes to the 2015/16 Statement of Accounts (SOA) to both streamline the financial statements and to help achieve earlier closedown deadlines

Information and Advice

2. The Audit and Accounts Regulations 2015 lists the statutory requirements for Local Authorities' published accounts and Audit. In addition, the CIPFA 'Telling the Story' document aims to improve the presentation of Local Authority financial Statements. There is also a requirement for all local authorities to close down their accounts to shortened closedown timeline by 2017-18.

Proposals

3. Nottinghamshire County Council's Annual Financial Report 2014/15 contained 57 notes to the accounts. All of these notes have been reviewed in the run up to the production of the 2015/16 document. As part of CIPFA's clutter cutting agenda, CIPFA's Disclosure Checklist states that, where disclosures are driven by accounting standards, the Code's provisions enable an Authority to exclude disclosures if the information is not material. Benchmarking with similar Authorities has also informed the proposals set out below.
4. Following a full review of the notes, it is proposed that a number of notes are removed from the 2015/16 Statement of Accounts either because they are not required as per CIPFA's Disclosure Checklist, the information is duplicated elsewhere in the accounts or the values involved are considered to be immaterial:-
5. **Note 8 – Agency Work:** This note summarises work that the County Council carries out on behalf of the Highways Agency. In 2014/15, this totalled £0.267m (£0.277m in 2013/14). CIPFA's Disclosure Checklist states that this information should be disclosed if material. It is considered that this agency work is not material and should therefore be excluded from the 2015/16 Statement of Accounts.
6. **Note 21 – Non-Maintained Schools:** This note explains that the accounting treatment of all schools is based upon the requirements of IFRS. It also states the number and class of schools treated as off balance sheet. The 'Accounting for Schools Property, Plant & Equipment' section in the Accounting Policies sets out the accounting treatment for schools

and it is felt that disclosing the number of schools treated as off balance sheet does not add value to the Statement of Accounts. Also, this information is not mentioned in CIPFA's Disclosure Checklist. It is therefore proposed that this note is removed from the 2015/16 Statement of Accounts.

7. **Note 35 – Single Status Reserve:** This note was included in the Statement of Accounts to reflect costs associated with the Single Status national agreement. Costs incurred by the Authority between 2002/03 and 2010/11 averaged £6m per annum. Costs incurred in 2014/15 totalled £0.1m. As the work and transactions associated with this reserve has decreased significantly and, in any case, the values are shown in the 'Movement on Earmarked Reserves' note, it is proposed that the Single Status Reserve note is removed from the 2015/16 Statement of Accounts.
8. **Note 37 – Capital Receipts and Grants Unapplied:** This note sets out the balances held on the Capital Receipts Reserve (which has been zero for the past six years as all capital receipts have been applied to repay prior year debt) and the Capital Grants Unapplied Reserve (£1.5m in 2014/15 (£2.0m in 2013/14)). The Capital Grants Unapplied movements can clearly be seen on the face of the Movement in Reserves Statement. Other Local Authority's show their Capital Receipts Reserve and Capital Grants Unapplied Reserve in their Usable Reserves note. It is proposed therefore that this note is removed from the 2015/16 Statement of Accounts with the Capital Receipts Reserve and the Capital Grants Reserve included in the 'Movement on Earmarked Reserves' note. This will have the additional benefit of ensuring that the 'Movement on Earmarked Reserves' note reconciles to the Total Usable Reserves as shown on the Balance Sheet.
9. **Note 38 – Other Operating Expenditure:** This note does not add any value to the reader of the accounts as it merely duplicates information shown on the face of the Comprehensive Income and Expenditure Account. It is therefore proposed that this note is removed from the 2015/16 Statement of Accounts.
10. **Note 39 – Financing and Investment Income:** As note 38, this note does not add any value to the reader of the accounts as it merely duplicates information shown on the face of the Comprehensive Income and Expenditure Account. It is therefore proposed that this note is removed from the 2015/16 Statement of Accounts.
11. **Note 48 – Information on Assets:** The information disclosed in this note is not mentioned in CIPFA's Disclosure Checklist. Also, on review of other Authority's Statement of Accounts, equivalent information is not disclosed. Given this, it is proposed that this note is removed from the 2015/16 Statement of Accounts
12. **Note 51 – Trust Funds:** This note sets out the trust fund balances held by the Authority (£25k in 2014/15 and 26k in 2013/14) and value of investments held (£57k in 2014/15 and £56k in 2013/14). Given the immaterial nature of these balances it is proposed that this note is removed from the 2015/16 Statement of Accounts.

13. On reviewing the notes to the accounts it was considered that they were somewhat disjointed. It is therefore proposed to re-order the Notes to the Accounts in order to make the Statement of Accounts flow more easily, as follows:-

General Statement of Accounts Considerations
Plant, Property and Equipment
Current Assets
Post-Employment benefits
Liabilities
Grants
Financial Instruments
Related Parties
Other Notes Required by the Code

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That Members note the proposed changes to the 2015/16 Statement of Accounts.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:
Glen Bicknell, Senior Accountant, Financial Strategy and Compliance

Constitutional Comments

15. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (GB 24/05/2016)

16. There are no direct financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

KPMG – AUDIT FEES 2016/17 & PROGRESS REPORT

Purpose of the Report

1. To inform Members of the proposed KPMG audit fees for 2016/17.
2. To provide Members with information relating to external audit progress and a technical update.

Information and Advice

3. The attached audit fees letter details the indicative fees for the forthcoming KPMG work in respect of Nottinghamshire County Council and Nottinghamshire Pension Fund.
4. The attached KPMG Progress Report and Technical Update provides details of the latest position with regard to external audit issues.
5. Representatives of KPMG will be in attendance at the Audit Committee meeting and will present the key features of the documents and respond to Member's questions.

Statutory and Policy Implications

6. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members note the proposed KPMG audit fee levels and comment accordingly.
- 2) That Members note the KPMG Progress Report and Technical Update.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:
Glen Bicknell, Senior Accountant, Financial Strategy and Compliance

Constitutional Comments

7. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (GB 24/05/2016)

8. The anticipated proposed total fees, excluding the indicative fee for grant claim certification, are £98,213 for Nottinghamshire County Council and £29,926 for the Nottinghamshire Pension Fund.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All



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Private & confidential

Mr A May
 Chief Executive
 Nottinghamshire County Council
 County Hall
 West Bridgford
 Nottingham, NG2 7QP

Our ref tc/dc

06 April 2016

Dear Anthony

Annual audit fee 2016/17

I am writing to confirm the audit work and fee that we propose for the 2016/17 financial year at Nottinghamshire County Council and Pension Fund. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd's (PSAA's) published work programme and fee scales.

Planned audit fee

The planned audit fees for 2016/17 are shown below, along with a comparison to the prior year's fee. All fees are exclusive of VAT.

Audit area	Planned fee 2016/17	Planned fee 2015/16
Code of Audit Practice audit fee – Nottinghamshire County Council	£98,213	£98,213
Audit of Pension Fund	£29,926	£29,926

PSAA has set the 2016/17 scale fees at the same level as for 2015/16, thereby preserving the 25 per cent reductions that were applied that year which in turn was in addition to the savings of up to 40 per cent in scale audit fees in 2012/13. The planned fee is in line with the scale fee.

As we have not yet completed our audit for 2015/16, the audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

Redistribution of Audit Commission surplus

Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

This distribution will be made directly by PSAA and not via KPMG. Based on current information, PSAA anticipates that the amount of the redistribution is likely to be in the order of 15% of the scale fee.

Factors affecting audit work for 2016/17

We plan and deliver our work to fulfil our responsibilities under the Code of Audit Practice (the Code) issued by the National Audit Office (NAO). Under the Code, we tailor our work to reflect local circumstances and our assessment of audit risk. We do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting our audit responsibilities or financial reporting standards.

CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the CIPFA *Code of Practice on Transport Infrastructure Assets* for highways network assets. This change will require additional work in 2016/17 but PSAA has indicated that it is not appropriate to increase the scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances. The fees for this additional work will therefore be discussed and agreed with you in due course and will be subject to PSAA's normal fee variation process. PSAA expects that the additional fees for a highways authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required and the auditor is able to rely on central assurance of the valuation models in use. This amounts are indicative and therefore costs outside of this range may be necessary.

Under the Code, we have a responsibility to consider an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources and to do this we will undertake appropriate value for money (VFM) audit work. The 2016/17 fees have been set on the basis that the NAO's Code and supporting guidance does not change the level of work required on the VFM audit. Should this not be the case, or if new or increased significant VFM audit risks arise that require further audit work, additional fees will be necessary over and above the scale fee. Any such additional fees will be subject to approval through PSAA's fee variation process.

Assumptions

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements with good quality supporting

working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for the current year's audit. A more detailed audit plan will be issued early next year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2. A statement of our independence is included at Appendix 3.

The proposed fee excludes any additional work we may agree to undertake at the request of Nottinghamshire County Council and Pension Fund. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

Our team

The key members of our audit team for the 2016/17 audit are:

Name	Role	Contact details
Tony Crawley	Director	Tony.Crawley@kpmg.co.uk 07966 184819
Sayeed Haris	Manager	Sayeed.Haris@kpmg.co.uk 07920 191951
David Schofield	Assistant Manager	David.Schofield@kpmg.co.uk 0116 256 6074

Quality of service

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me and I will try to resolve your complaint. If you are dissatisfied with your response please contact the national contact partner for all of KPMG's work under our contract with PSAA, Andy Sayers (andrew.savers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to:



KPMG LLP
Annual audit fee 2016/17
06 April 2016

Public Sector Audit Appointments Limited
3rd Floor
Local Government House
Smith Square
London
SW1P 3HZ

Yours sincerely

Tony Crawley
Director, KPMG LLP

cc: Nigel Stevenson, S.151 Officer

Appendix 1 – Audit fee assumptions

In setting the fee, we have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2015/16;
- you will inform us of significant developments impacting on our audit work;
- internal audit meets the appropriate professional standards;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2016/17 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by KPMG, PSAA, the NAO or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Planned output	Indicative date
External audit plan	March 2017
Report to those charged with governance (ISA260 report)	September 2017
Pension Fund Audit Highlights memorandum	September 2017
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2017
Opinion on Whole of Government Accounts return	September 2017
Annual audit letter	November 2017

Appendix 3 – Independence & objectivity requirements

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the NAO's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.

- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of April 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



External Audit Progress Report and Technical Update

Nottinghamshire County Council and Pension Fund

May 2016

Contents

**The contacts at KPMG
in connection with this
report are:**

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Page

Report sections

- | | |
|----------------------------|---|
| 1. External Audit Progress | 3 |
| 2. KPMG Publications | 5 |
| 3. Technical Update | 7 |

Appendices

- | | |
|-------------------------------|----|
| 1. 2015/16 Audit deliverables | 11 |
|-------------------------------|----|

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External audit progress report - May 2016

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix one of this report.

<p>Financial statements</p>	<p>In order to form our opinion on the Authority's financial statements, we review the key financial systems across the organisation to gain assurance over the design and implementation of the controls in place that address the key risks within each system. The strength of the control framework informs the substantive testing we complete during our final accounts visit.</p> <p>This work was completed at our interim visit in March and April this year. As part of this, we also completed an assessment of the general IT controls in place at the Authority. In addition we completed our review of the financial systems in place for the Pension Fund.</p> <p>We have not identified any specific control weaknesses that we would like to bring to your attention at this stage.</p> <p>The final accounts visit is due to take place in July 2016. In preparation, we have had early dialogue with management on specific areas such as the changes to the Code of Practice, and the revisions proposed to the presentation of the Authority's statements.</p>
<p>Value for Money</p>	<p>Our value for money work is in progress and is due to be completed in July 2016.</p> <p>As part of this process we have been meeting with senior officers in the Authority to discuss in more detail the value for money arrangements and future challenges facing their respective department. The results of these discussions will feed into our 2015/16 Value for Money conclusion.</p> <p>This work has also involved reviewing the Authority's Committee papers and budget monitoring reports, and will include review of the final outturn position.</p>
<p>Other work</p>	<p>We have completed the certification work on the Teachers Pensions return since our last progress update in November 2015. Our work was completed in accordance with the grant certification instructions and issued to the Teachers' Pensions Authority.</p> <p>We are currently in the process of completing the Transport Grant return for the Hucknall Town Centre improvement scheme. This work is being completed in accordance with the Department for Transport Assurance Instructions.</p> <p>Currently there are no issues that we would bring to your attention and we anticipate that this work will be completed before the certification deadline of 31 May 2016.</p>



KPMG Publications

<p>KPMG Local Government Budget Survey</p>	<p>KPMG has recently published the results of its Local Government Budget Survey. The survey collated data from 97 KPMG local authority clients on topics including:</p> <ul style="list-style-type: none"> ■ The content of budget monitoring reports; ■ Savings plans; ■ Invest-to-save projects ■ The type of savings being made; ■ Assumptions underlying the medium term financial plan; and ■ Reserve movements. <p>The Survey also poses questions for management and members to consider when reviewing their budget setting and budget monitoring processes.</p>
<p>KPMG publication titled: Value of Audit – Perspectives for Government</p>	<p>What does this report address?</p> <p>This report builds on the <i>Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting</i> – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.</p> <p>Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.</p> <p>What are the key issues?</p> <ul style="list-style-type: none"> ■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements. ■ The importance of trust and independence of government across different markets. ■ How government audits can provide accountability thereby enhancing the government's controls and instigating decision-making. ■ The importance of technology integration and the issues that need to be addressed for successful implementation ■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits <p>The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at https://home.kpmg.com/xx/en/home/insights.html</p> <p>The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</p>



Technical update

New local audit framework	
Level of impact ●	KPMG perspective
<p>CIPFA have now issued guidance that was commissioned by DCLG on the creation of Auditor Panels. The guidance is available at www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf. The guidance provides options on establishing an Auditor Panel, and the roles and responsibilities the panels will have once established.</p>	<p><i>Officers have reported to the Finance and Property committee in April 2016 detailing the changes to the arrangements for appointing External Auditors. Members may wish to review this report, and the CIPFA guidance to discuss the approach with the Authority.</i></p>
DCLG consultation on pension fund investment reform	
Level of impact ●	KPMG perspective
<p>The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes.</p> <p>The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance</p> <p>The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme</p>	<p><i>A report has been presented to the Pensions Sub Committee in May 2016 regarding the consultation.</i></p>

Accounts and Audit Regulations 2015 – Narrative statements	
Level of impact ●	KPMG perspective
<p>Authorities will need to be aware that the Accounts and Audit Regulations 2015 require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states:</p> <p>Narrative statements</p> <p><i>A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.</i></p> <p><i>A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.</i></p> <p>Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge.</p> <p>The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's Code of Practice on Local Authority Accounting (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.</p>	<p><i>Officers are completing this as part of producing the Statement of Accounts. The Committee may wish to seek assurances that its Authority has arrangements in place to meet the new requirements.</i></p>

2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) – update

Level of impact ●

KPMG perspective

CIPFA/LASAAC has issued an update to the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) following its consultation process. The 2015/16 Code update should be read alongside the 2015/16 Code published in April 2015.

Authorities should note that the update confirms the transitional reporting requirements for the measurement of the Highways Network Asset. The Code does not require a change to the preceding year information for the move to measuring the Highways Network Asset at current value (and under that provision would not require a change to the balance sheet information at 1 April 2015). It also does not require a restatement of the opening 1 April 2016 information but there will need to be an adjustment to those balances.

The Code update also includes amendments as a result of legislative changes and particularly the Accounts and Audit Regulations 2015 for English authorities. It specifies the principles for narrative reporting which CIPFA/LASAAC considers should be used to meet the new requirements of those regulations.

Officers have presented a report to members in March 2016 with the 2015/16 Accounting Policies, and also the revised valuation methodology for Highways Network Assets.

PSAA update – VFM profiles March 2016 release

Level of impact ● (for information)

Public Sector Audit Appointments Ltd (PSAA) updated its Value for Money Profiles Tool (VFM profiles) on 3 February 2016.

The VFM profiles have been updated with the 2014-15 data sourced from the Department for Communities and Local Government – General Fund Revenue Outturn Budget (RO). The values are adjusted with gross domestic product (GDP) deflators from HM Treasury's publication in November 2015. The profiles can be accessed through the PSAA website at www.psaa.co.uk/



Appendix one

2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	Complete
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	Not yet due
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	Not yet due
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	Not yet due
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	Not yet due



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.



**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT**

DRAFT ANNUAL GOVERNANCE STATEMENT – 2015/16

Purpose of the Report

1. To inform Members of the proposed Annual Governance Statement 2015/16 and to invite Members to consider and approve the Statement prior to its accompanying the Statement of Accounts 2015/16.

Information and Advice

2. The Accounts and Audit (England) Regulations 2011 require the Authority to review the effectiveness of its system of internal control and publish an annual governance statement, prepared in accordance with proper practices in relation to internal control.
3. Using guidance developed by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives, an Annual Governance Statement has been drafted and is attached. The draft Statement was discussed by the Corporate Leadership Team on 26th April 2016 and endorsed by the Chief Executive, Monitoring Officer and Section 151 Officer.
4. As the Statement covers corporate governance and risk management issues, it needs to be referred to Full Council which will be done as part of the approval process for the Statement of Accounts 2015/16.

Other Options Considered

5. The requirement to publish an annual governance statement is set out in the Accounts and Audit Regulations 2011. No other options are available.

Reason for Recommendation

6. To set out how the Authority has met its' governance responsibilities for 2015/16.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That the Committee endorses the Annual Governance Statement 2015/16 and makes any comments or recommendations which it considers ought to be included in the report which is required to be taken to the next appropriate Council meeting, to accompany the Statement of Accounts 2015/16.

Nigel Stevenson

Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (SLB 09/05/2016)

8. Audit Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 06/05/16)

9. There are no specific financial implications arising directly from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

- None

Electoral Division(s) and Member(s) Affected

- All

NOTTINGHAMSHIRE COUNTY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2015/16

1. SCOPE OF RESPONSIBILITY

- 1.1. Nottinghamshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. Public money must be safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Localism Act 2011 has, among other things, established a general power of competence for local authorities.
- 1.2. In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including the arrangements for the management of risk.
- 1.3. This statement meets the requirements of regulation 4 of the Accounts and Audit Regulations (England) 2011 in relation to the publication of an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1. The governance framework comprises the culture, values and duties of the Authority, supported by the systems and processes put in place to provide assurance that the culture, values and duties are complied with in practice. The Authority uses this framework to direct and control its work and ensure that it engages with, leads, and accounts to the community it serves. The framework enables the Authority to provide assurance over the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services within the existing legal framework.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. THE GOVERNANCE FRAMEWORK

- 3.1. The governance framework, as described below, has been in place at the County Council during the financial year 2015/16.

Planning & Performance Management

- 3.2. The Council's Strategic Plan covers the period 2014 to 2018 and is publicised widely in the county. It is a key document in terms of identifying and communicating the Authority's vision and intended outcomes for citizens and service users. Specifically, it provides for the following:
- Providing a clear statement of the Authority's vision, priorities and values, together with a commitment to treat people fairly, provide value for money and to work together with partners and residents.
 - Enabling agreed political objectives and statutory requirements to drive the Authority's activities.
 - Enabling the communication of the Authority's priorities to the community of Nottinghamshire, partner organisations and staff.
 - Providing a broad framework of objectives and performance indicators, to ensure effective performance management.
- 3.3. The Authority continues to implement a strategic management framework, which sets out in detail the individual factors that are required to manage performance and how they work together in the Authority. A dashboard of key measures was developed during the year to monitor delivery of the strategic plan.
- 3.4. Performance against the key performance indicators is monitored regularly and progress reports are submitted periodically to the Corporate Leadership Team and to the Policy Committee.
- 3.5. Each year the Authority approves the annual budget and capital programme which includes an update of the Medium Term Financial Strategy. The Medium Term Financial Strategy is the financial plan which underpins the Strategic Plan.

Risk Management

- 3.6. The process of risk management in the Authority is overseen by the Risk, Safety and Emergency Management Board, which meets periodically throughout the year. The corporate risk register is reviewed at each of the Board's meetings, to determine whether additional steps are required to mitigate key risks.
- 3.7. Supporting the Board are Risk, Safety and Emergency Management Groups, one for each department. The Groups are responsible for having an overview of risk management in each department and for maintaining a departmental risk register.

Organisational Roles & Decision-Making

- 3.8. The Head of Paid Service is responsible for reporting to Full Council on the manner in which the discharge of the Council's functions is co-ordinated, the number and grade of officers required for the discharge of functions and the organisation of officers.
- 3.9. The Monitoring Officer is responsible for maintaining the Constitution, ensuring it is available for inspection and making minor changes as a result of any restructuring. The Constitution is posted on the Council's website. The Monitoring Officer is also responsible for ensuring the lawfulness and fairness of decision-making; this includes responsibility, after consulting with the Head of Paid Service and Chief Finance Officer, for reporting to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration. The Monitoring Officer is responsible for contributing to the promotion and maintenance of high standards of conduct.
- 3.10. The Constitution sets out how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people. The Authority has a service committee for each of the key areas of service, in addition to an overarching Policy Committee and Full Council. The Monitoring Officer is responsible for keeping the Constitution under review and reporting any proposed amendments to Council. A number of minor amendments were approved during 2015/16, with the most recent changes coming into force in February 2016.
- 3.11. The Constitution incorporates a formal scheme of delegation, setting out the delegated powers of the Authority's most senior officers.
- 3.12. The Authority's Financial Regulations are currently subject to review to ensure they remain current and relevant for the changing financial environment in which the Council operates.

Standards of Conduct and Counter-Fraud Arrangements

- 3.13. Codes of Conduct, for both Members and staff, are contained within the Constitution together with the Code on Member and Officer Relationships.
- 3.14. The Authority's Conduct Committee is responsible for considering complaints relating to breaches of the Code of Conduct for Councillors and Co-opted Members. No issues arose in 2015/16 which required the committee to convene a meeting.
- 3.15. During 2015/16, the member development programme continued to respond to changing national and local policy. Training and briefing sessions were delivered on a range of topics, including: child sexual exploitation and children's safeguarding issues, adults' safeguarding, Goddard enquiry and sexual orientation based hate crimes. Aside from the development programme, senior managers continued to update members on all relevant issues as they arose during the year.

- 3.16. All officers, including senior officers, are subject to annual Performance and Development Reviews. These reviews specifically identify and monitor development and training needs in relation to the individual employee's role. The Performance and Development Reviews incorporate a detailed Competency Framework which sets out the observable skill levels and behaviours required of every employee at each tier of the organisation. The Performance and Development framework has recently been reviewed, and improved forms and guidance are available for use from 2016/17.
- 3.17. The Authority has adopted a refreshed policy and strategy for countering fraud and corruption. The strategy aims to embed a strong counter-fraud culture in the Authority, based on a zero tolerance stance against fraud. The strategy is built around effective procedures for preventing and detecting fraud, allied with a robust response to any cases identified. The strategy and policy documents are available on the Council's public website.

Financial Management

- 3.18. The Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of The Chief Financial Officer in Local Government. The Statement sets out the five principles that need to be met, to ensure that the Chief Financial Officer can carry out the role effectively, as follows:
- Key member of the Leadership Team
 - Must be actively involved in all material business decisions
 - Must lead the promotion and delivery of good financial management
 - Must lead and direct a finance function that is resourced to be fit for purpose
 - Must be professionally qualified and suitably experienced.
- 3.19. The Chief Financial Officer for the Authority is the Service Director – Finance, Procurement and Improvement. This post reports to the Corporate Director for Resources, who is a member of the Leadership Team. The Chief Financial Officer is also a member of the Leadership Team, ensuring involvement in material business decisions. The Authority has set up the Business Support Centre, which manages financial transactions on behalf of the Authority, including payroll, pensions and income transactions. As the Business Support Centre does not report to the Chief Financial Officer, controls have been established to ensure that the Chief Financial Officer can secure the promotion and delivery of good financial management in these areas. The Chief Financial Officer is professionally qualified.
- 3.20. A regular report on the Council's financial position is made to the Finance and Property Committee. Separate progress reports are submitted to the Policy Committee regarding delivery of the options for change to achieve the required cost savings the Authority needs to make to achieve a balanced budget.

Change Management

- 3.21. The Authority has developed, and continues to implement, an extensive programme of change in response to the conflicting pressures it faces of reducing financial resources at a time of increasing demand for services. The 'Redefining Your Council' programme seeks to ensure that the Council can deliver the services that the people of Nottinghamshire value in a sustainable way. The effectiveness of the programme was reviewed during 2015/16 and proposed changes were approved by the Policy Committee in July 2015. These were concerned with the addition of new programmes, and revised arrangements for governance and performance management. Quarterly progress reports against the programme are submitted to the Policy Committee.

Compliance & Scrutiny

- 3.22. The Authority's Audit Committee meets regularly during the year and fulfils the recommended core functions as set out in CIPFA's publication, 'Audit Committees – Practical Guidance for Local Authorities. The core functions relate to the review of Internal and External Audit work, the effectiveness of the Authority's control environment, the review of the annual assurance statement and the review of the financial statements.
- 3.23. The Authority's Internal Audit service is delivered in accordance with the requirements of the Public Sector Internal Audit Standards. Compliance with the standards is self-assessed on an annual basis, the most recent having been completed and reported to the Audit Committee in June 2015. Progress against the action plan was highlighted.
- 3.24. The Monitoring Officer is responsible, after consultation, for reporting to the relevant committee or Council if it is considered that any proposal, decision or omission would give rise to unlawfulness. In addition, Constitutional Comments are contained in reports to Council and Committees to advise on compliance with the policy framework and the Constitution. The Service Director – Finance, Procurement and Improvement also has a responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure. Compliance with legislative requirements is also a feature of the External Auditors' review of the Council's accounts.
- 3.25. The Authority's Whistleblowing Policy was reviewed by Policy Committee in December 2013 and revised to reflect changes in legislation. It is proposed that an annual report on whistleblowing will be presented to the Policy Committee. The Authority's complaints procedure is well established and is also monitored by the Policy Committee; regular reports are presented both to the Policy Committee and to the Corporate Leadership Team.

Communications and consultation

- 3.26. There is a steady move towards offering alternative channels of communication which are more cost-effective and targeted than other

traditional print models. An ambitious and wide-ranging digital transformation project, called Digital First, is addressing a number of work streams to update the way the Council communicates with, and offers services to, the public. A project update presented to the Policy Committee in October 2015 highlighted the implementation of a more user-responsive website from September 2015, progress towards an updated intranet for the benefit of Council employees, plus some other developments relating to the project.

- 3.27. Where possible, better value for money products have been developed such as the Life magazines that target all residents and families. These sit alongside and are complemented by the electronic channels such as the authority's email subscription service, Emailme, which now has more than 144,000 subscriptions.
- 3.28. The Council updated its Social Media Policy during the year, and a further report on progress with implementation will be submitted to the Policy Committee during 2016/17.
- 3.29. A Citizens Panel, 'Nottinghamshire Listens', made up of approximately 5,000 people is in place and has been used to engage with citizens throughout the County on a wide range of issues.
- 3.30. The Authority carried out extensive budget consultations in preparing the 2015/16 and 2016/17 budgets. Over 2,000 responses were received on the consultation for 2016/17 budget.
- 3.31. The Council's Equality Policy sets out how the Authority aims to achieve its equality objectives, both in terms of the delivery of services and in terms of its employment practices. Established processes are in place for carrying out equality impact assessments for change proposals, including consultation with the relevant staff networks.

Partnership Working

- 3.32. The Authority works in partnership with a number of bodies. Partnership working has focused in recent years on developing joint working with Health, District Councils and the local business community, among others. Several formal committees have been established, on which the Council is an active member:
 - With Nottingham City Council on the Greater Nottingham Light Rapid Transit Advisory Committee, the Joint Committee on Strategic Planning and Transport:, and the Joint City/County Health Scrutiny Committee,
 - With all Nottinghamshire councils on the City of Nottingham and Nottinghamshire Economic Prosperity Committee
 - Nottinghamshire Local Pensions Board
 - Nottinghamshire Police and Crime Panel
 - Bus Lane and Parking Adjudication Service Joint Committees
- 3.33. A number of County Council committees also include external representatives:

- Health and Wellbeing Board
- Children & Young People's Committee
- Health Scrutiny Committee
- Pensions Investment Sub-Committee and Pensions Sub-Committee
Economic Development Committee

3.34. The County Council is also represented on the Nottinghamshire and City of Nottingham Fire Authority.

4. REVIEW OF EFFECTIVENESS

4.1. The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority (Head of Paid Service, Monitoring Officer and Chief Financial Officer) who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the External Auditor and other review agencies and inspectorates.

4.2. Commencing in 2016/17, quarterly, formal meetings of the Council's three statutory officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) will be held. These meetings will incorporate a standing item to keep the effectiveness of the governance framework under continual review. The Head of Internal Audit will join the meeting for discussion of this agenda item.

4.3. Throughout 2015/16, the Authority has maintained and reviewed the effectiveness of the governance framework. In particular:-

a) The County Council has received and considered a number of reports, including:-

- Management accounts and the Council's Statement of Accounts 2014/15
- County boundary review
- Ofsted inspection of children's services
- Treasury Management
- Joint Health scrutiny arrangements
- Budget Report 2016/17 and Medium Term Financial Strategy 2016/17 to 2019/20
- Pay Policy statement
- Amendments to the Constitution

b) Policy Committee has considered and approved a number of reports in its role as the committee responsible for policy development and approval, including:-

- Strategies and policies – including those relating to aspects of adults' and children's care, counter-fraud, procurement, and social media, plus spending proposals for 16/17 to 18/19.

- Transformation agenda – ‘Redefining Your Council’ review, senior management structure, ‘Digital First’ programme progress, Social Care and Health integration, Smarter Working programme, joint venture proposals, devolution developments.
 - Performance and compliance– strategic plan and ‘Redefining Your Council’ progress, use of urgency procedures, use of RIPA powers.
 - Consultation and engagement – ‘County Life’ consultation feedback, budget consultation, residents’ satisfaction survey.
 - External assessments – Local Government Ombudsman annual letter, Information Commissioner’s Office report and action plan
- c) The Audit Committee has considered a wide variety of issues including:-
- Internal Audit - Annual Report 2014/15, Annual Plan 2015/16 and mid-year progress
 - Statement on conformance with Public Sector Internal Audit Standards
 - Annual Governance Statement
 - Revised Counter-Fraud and Counter-Corruption Policy
 - Statement of Accounts 2014/15 and associated accounting policies
 - KPMG External Audit Plan 2015/16, annual governance report and Audit Letter
 - Financial regulation waivers
 - Briefings on the role of the Audit Committee and progress with the Council’s procurement function.
- d) Internal Audit has undertaken planned reviews of internal control procedures across all departments and across a range of functions in the Authority. Each review contains an opinion on the internal controls in place. Based on the audits completed in 2015/16, Internal Audit’s overall opinion is that the Authority had a good system of internal control in operation.
- e) External Audit’s report to those charged with governance (Audit Committee) for 2014/15 stated that the Auditor issued an unqualified audit opinion on the County Council’s 2014/15 accounts. No material audit adjustments within the financial statements were identified. The Authority’s organisational control environment was deemed effective overall, and they did not identify any significant weaknesses in controls over key financial systems. The Auditor also concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

5. SIGNIFICANT GOVERNANCE ISSUES

Responding to the financial and policy environment

- 5.1. The Authority continues to face significant financial challenges. Local authorities are struggling with falling Government grants while facing increased demand for services as well as other cost pressures from inflation

and new legislation. National policy to place local government on a footing of greater self-sufficiency may leave the Council with new burdens and/or a financial shortfall. In particular, the implications of policy changes for care needs assessments, such as those relating to the Care Act, must be understood and evaluated.

- 5.2. The transformation framework, ***Redefining Your Council***, continues to drive the Council's response to the financial and policy environment. The framework seeks different ways of delivering services by looking first at innovative and creative solutions. A comprehensive review has been carried out into every aspect of Council activity with a particular focus on high-cost services.
- 5.3. An evaluation of the first phase of Redefining Your Council was undertaken during the year. As a result of this, the scope of the programme was extended and revised arrangements were approved for programme governance and performance management. A second review of the programme will be undertaken during 2016/17.
- 5.4. The Council's Medium Term Financial Strategy shows that the Council can deliver a balanced budget in 2016/17, however further savings of £50.2 million will be required from 2016/17 to 2019/20.
- 5.5. From 2018/19, it is proposed that local councils will retain all locally raised business rates and that the distribution of core grant funding from central government will end. Preparatory work at the Council for this change will be commencing in 2016/17.

Other key governance issues

- 5.6. The Council will continue its transformation into a smaller organisation using a greater diversity of delivery arrangements with the potential for greater risk. Alternative Service Delivery Models will become live in 2016/17 in a number of areas, including Libraries, Highways and Property Services. Added to the range of alternative models already in place, the importance for the Council to ensure the effectiveness of its contract management capabilities is a key priority.
- 5.7. Following the County Council elections in 2013 the Authority had a Labour majority. Over the last three years there have been several changes in the membership of the County Council Labour Group which have resulted in the Authority being in no overall control. The places allocated on committees to groups and to the elected members who are not in a group has been reassessed on a number of occasions to ensure it complies with the requirements of political proportionality.
- 5.8. Social care provision is increasingly being integrated with health care provision, and work is underway to manage this effectively through the Nottinghamshire Sustainability and Transformation Plan. This is a local blueprint for accelerating the implementation of a five year plan for closer integration. Through the Better Care Fund, the Council is working with the six

local Clinical Commissioning Groups (CCGs) covering Nottinghamshire to ensure that health and social care services are efficient, integrated and working together wherever possible to improve the way we care for older people across the County. In 2015/16, the Better Care Fund enabled the partners to pool £59M of their money together to support integrated health and social care services.

- 5.9. The scale and speed of the transformation programme the Council has been implementing over recent years has inevitably placed pressure on the ability of staff to apply core systems of control consistently. The Internal Audit programme for 2016/17 seeks to deliver assurance over the effectiveness of key control systems, and the service plans to introduce a periodic, internal publication to provide updates and pro-active guidance on significant control issues.
- 5.10. The Council has established a project team and project Board to co-ordinate the Authority's response to the Independent Inquiry into Child Sexual Abuse (IICSA), as it investigates whether public bodies and other non-state institutions have taken seriously their duty of care to protect children from sexual abuse in England and Wales. The investigation of children in the care of Nottinghamshire Councils (Nottingham City and Nottinghamshire County Council) is focussed on children living in care in residential homes and foster families. The investigation will critically consider how both Councils responded to allegations that children were being sexually abused and will seek to identify any common themes and failings. The Council has made two submissions to the IICSA already, ensuring core principles are in place to allow the enquiry to carry out its work effectively.
- 5.11. During 2015/16, the 19 councils across Nottinghamshire and Derbyshire have considered the potential for a devolution deal with Government. Although no deal has been agreed at this stage, there may be further developments, either locally or at a national level, in respect of devolution in 2016/17.
- 5.12. The Local Government Boundary Commission has completed its review of Nottinghamshire. The results of that review were reported to Council in November 2015 and have now been confirmed by Parliament. During 2016 work will be undertaken to ensure that all the required changes are implemented as required for the County Council elections in 2017.
- 5.13. The Council is currently handling planning applications in respect of shale gas developments in the county. The Council recognises that such applications are likely to attract wide public interest, therefore a working group with appropriate local partner organisations has been set up to manage the risks involved.

The Council has adopted a robust approach to addressing these financial, demographic, technological and legislative challenges.

The Audit Committee reviewed the governance framework detailed in this statement at their meeting on 8 June 2016. We are aware of the steps that are being and will be taken to address the above significant governance issues and we are satisfied that these are appropriate. We will monitor their implementation during the course of 2016/17 and beyond.

Signed:.....

LEADER

Signed:.....

CHIEF EXECUTIVE



**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT &
IMPROVEMENT**

ANNUAL FRAUD REPORT 2015/16

Purpose of the Report

1. To present to Members the Council's first Annual Fraud Report, and to invite feedback on its format, content and proposed development over the coming year.

Information and Advice

2. The Council's revised strategy for countering fraud and corruption was approved by the Policy Committee in June 2015, following a review of the Council's arrangements against best practice. The revised strategy includes the requirement for an Annual Fraud Report to be submitted to both the Corporate Leadership Team (CLT) and the Audit Committee. This new requirement was included in the strategy with a view to demonstrably strengthening the counter-fraud culture at the Council.
3. The attached report represents a first edition of the Annual Fraud Report. It should be acknowledged that this first edition is a work in progress, in particular with regard to one of its underpinning elements, the Fraud Risk Assessment (FRA). The Report highlights this, and sets out plans over the current year to improve it. Principally, consultation on the FRA needs to be more widespread to properly capture the views of key managers in the Council on the following:
 - the nature of fraud threats facing the Council
 - inherent and residual risk levels.

Other Options Considered

4. The requirement to publish an Annual Fraud Report is a feature of the Council's refreshed strategy for countering fraud and corruption. The format of the report is not regulated, therefore feedback on options for its format and content will help to develop the report for future years.

Reason for Recommendation

5. To inform the Committee of the Council's current arrangements for tackling fraud and corruption and to invite suggestions for how those arrangements can be improved.

Statutory and Policy Implications

6. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That the Committee notes the content of the Annual Fraud Report 2015/16 and offers its feedback on the adequacy of the Council's current and planned arrangements for tackling fraud and corruption.

Nigel Stevenson

Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:

Rob Disney

Head of Internal Audit

Constitutional Comments (SLB 09/05/2016)

7. Audit Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 06/05/16)

8. There are no specific financial implications arising directly from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

- None

Electoral Division(s) and Member(s) Affected

- All



Nottinghamshire County Council

ANNUAL FRAUD REPORT 2015/16

Contents

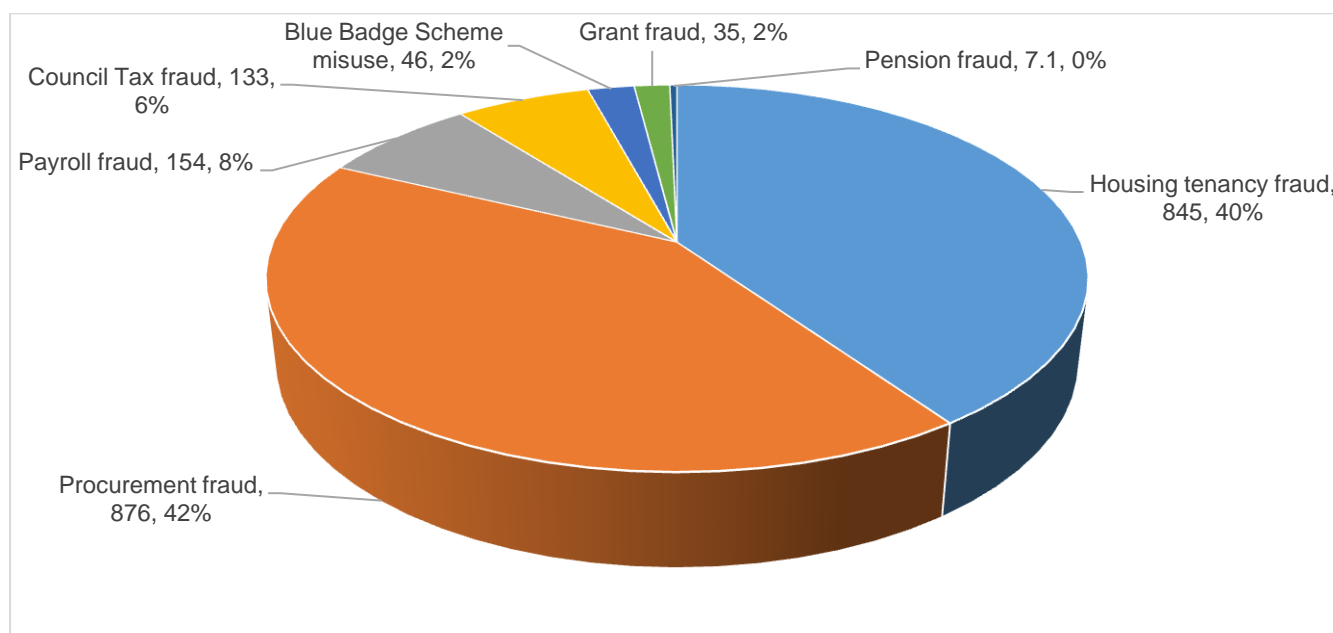
1. UNDERSTANDING THE FRAUD THREAT	2
2. INCIDENCE OF FRAUD AT NCC	4
3. NCC'S ASSESSED RESILIENCE TO FRAUD	7

1. UNDERSTANDING THE FRAUD THREAT

National picture

1.1 The CIPFA Counter Fraud Centre publication, 'Fighting Fraud Locally', is a local government strategy for countering fraud and corruption. Using estimates prepared in 2013 by the National Fraud Authority, 'Fighting Fraud Locally' estimates fraud losses across all sectors in the UK to be £52 billion. Of this total, £19.9 billion is thought to be perpetrated against the public sector. Local government losses are considered to be around £2.1 billion, the breakdown of which is shown in the chart below.

Table 1 – Estimated losses to fraud in local government (£m)



Local threat level

1.2 A Fraud Risk Assessment (FRA) for has been developed to assess the nature of the fraud and corruption threats the Council currently faces. This is the first version of the FRA, and it has been compiled primarily by the Council's Internal Audit service, using the following sources of information:

- 'Fighting Fraud & Corruption Locally – The Companion 2016-2019' - this sets out the CIPFA Counter Fraud Centre's assessment of the key threats facing local councils
- Periodic fraud alerts from organisations such as the National Anti-Fraud Network and the National Fraud Intelligence Bureau – these are received regularly throughout the year by the Internal Audit service.
- The incidence of suspected fraud cases at the Council
- The Internal Audit service's knowledge and review of the core systems of control in place within the Council.

1.3 For this first version of the FRA, the extent of consultation with senior managers in the Council has been limited. The FRA was presented to the Corporate Leadership Team

(CLT) in April 2016 and, in doing so, it was highlighted that the FRA needs to remain a live document through ongoing consultation on the following aspects of the local fraud threat:

- the extent of fraud threats in the authority and the inherent risk they pose
- the range of key controls and measures in place to mitigate the risks, to confirm the residual risk levels
- actions planned to mitigate risks further.

1.4 The FRA highlights the following to be the key areas of risk for NCC:

Internal threats

- a) Misappropriation of cash and bank balances
- b) Inappropriate use of NCC assets
- c) Submission of fraudulent claims for overtime and expenses
- d) Non-compliance with tendering regulations

External threats

- e) Submission of invoices for services not delivered or goods not received
- f) Pension fraud
- g) Invalid use of travel and parking permits

Planned actions in 2016/17 to strengthen the Council's controls against fraud are set out below in section 3.

1.5 During 2016/17, the FRA will be kept under continual review, as follows:

- Consultation with key service managers to confirm the nature of the fraud threat facing key services, the key controls in place to mitigate risks, and planned developments to strengthen resilience further
- Internal Audit to update the FRA during the year in the light of national fraud alerts it receives, the incidence of further fraud cases at the Council, and the outcome of its own reviews of controls in the key areas of the Council's activity which are vulnerable to attempted fraud
- The updated FRA to be discussed quarterly with the Statutory Officers' Group and reported quarterly by Internal Audit to CLT.

2. INCIDENCE OF FRAUD AT NCC

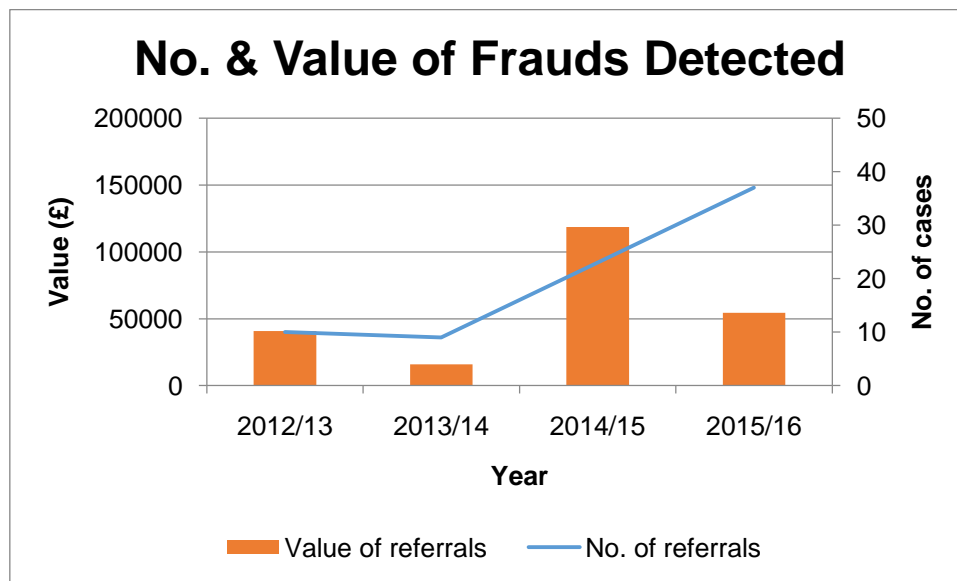
2.1 In compliance with the Transparency Code, NCC publishes summary information on its website each year concerning its arrangements for countering fraud. This includes the number of fraud cases investigated each year. The published details for the past two years are the following:

Table 2 – Published Transparency Code information

	2014/15	2015/16
No. employees involved in fraud investigation	25	21
No. professionally accredited fraud specialists	0	0
Cost of employee time investigating fraud	£44,168	£43,087
No. fraud cases investigated	28	40

2.2 For some of the above cases, the investigations concluded that there was insufficient evidence to confirm that fraud had been perpetrated against the Council. In terms of confirmed cases, the following chart presents the detected levels of fraudulent activity in the Council in recent years.

Table 3 – Trend in the incidence of detected fraud at NCC



2.3 The increase in the number of detected cases of fraud over the past two years is attributable to a number of positive actions the Council is taking to tackle fraud:

- Improved awareness of potential fraud through the Council's re-vamped Counter-Fraud and Counter-Corruption Strategy & Policy, and its Fraud Response Plan
- Improved intelligence over the incidence of fraud in the Council
- Improved systems for detection, through targeted reviews in the services at the greatest risk of fraud.

2.4 In the 2015/16 financial year, the following fraud cases were detected:

Table 4 – Detected fraud cases in 2015/16

Nature of fraud	Detection source	Amount involved (£)	Response status
NCC – Internal			
Misappropriation of income	Whistle blower	6,000 (estimate)	Staff dismissals
Bogus travel claims	Line management	300	Employee left NCC prior to dismissal
Loss of petty cash balance	Line management	115	Lost amount written off. No potential suspects identified
Falsified timesheets	Line management	Unquantified	Employee dismissed
Schools – Internal			
Inappropriate payments to staff	Internal Audit	4,465	Employee was no longer in the school's employment. Further payments stopped
Bogus overtime claims	Head Teacher	Unquantified	Employee dismissed
Failure to work contracted hours and bogus overtime claims	Head Teacher	Unquantified	Employee dismissed
NCC – External			
Non-notification of deceased service user (residential care)	NFI	43,512	Full recovery of amount overclaimed
Late notification of deceased service user (direct payments)	NFI	286	Account closed and amount invoiced to estate of service user
Misuse of Blue Badges - disabled parking permits (10 cases in 2015/16)	Civil Parking Enforcement Officers	n/a	Warning letters sent out to 10 pass holders
Misuse of Direct Payments (16 cases in 2015/16)	Monitoring procedures	Unquantified	Direct Payments withdrawn from service users, social care needs now met through personal budget
Deprivation of assets (Adult Social Care)	Financial Assessment	Unquantified	Service user now paying full cost of care
Forged bank note	NCC's bank	20	Income written off

- 2.5 All incidences perpetrated by employees of NCC in 2015/16 have been dealt with through the disciplinary procedure.
- 2.6 2015/16 also saw the completion of successful prosecutions in two cases which arose in previous years:
- a) A school office manager was jailed for 12 months at Nottingham Crown Court having pleaded guilty to fraud by false accounting and six counts of fraud by false representation, involving the misappropriation of £30,000 of school funds over a five year period.
 - b) A member of the public was handed a 26-week suspended prison sentence, plus a victim surcharge of £80, for continuing to cash her mother's pension cheques after the date of her mother's death in 1986. The fraud amounted to almost £70,000. This case also identified flaws in the reliability of National Fraud Initiative data-matching using death records prior to 1990.

National Fraud Initiative (NFI)

- 2.7 Included within the above are the cases detected through the Council's participation in the NFI. The Cabinet Office carries out a data matching exercise throughout the country, on a two yearly basis, to help public sector organisations detect fraudulent and erroneous payments. The main purpose of the exercise is to match data from a range of organisations to help reduce the level of fraud in key areas, including housing benefit, pensions, tenancy fraud and supplier management.
- 2.8 The most recent exercise, NFI 2014/15, required the County Council to submit payroll data relating to both employees and pensioners. This data was matched against other authorities' payroll and housing benefit data, against the Department of Work and Pensions (DWP) deceased persons data, and against Home Office immigration records.
- 2.9 Data was required on the payments to creditors for the period April 2009 to September 2012, which was analysed for duplicate payments, duplicate supplier records and incorrect payments of VAT. An exercise was carried out on potential matches of staff details and supplier details to examine the possibility of any conflicts of interest for employees of the Authority.
- 2.10 Data in respect of Blue Badge parking permits, residents parking permits, concessionary fares and payments to private residential care homes was compared with DWP deceased persons data, and details of insurance claims were analysed to identify potential duplicate or serial claimants.

3. NCC'S ASSESSED RESILIENCE TO FRAUD

- 3.1 The Transparency Code information presented above in Table 2 identifies that 21 staff were involved in the investigation of fraud in 2015/16. This comprised staff working in the following areas of service:
- Internal Audit
 - ACFS Finance
 - Human Resources
 - Blue Badge (parking)
- 3.2 The Council does not have a staffing resource dedicated exclusively to the investigation of fraud, nor does it currently have any staff professionally qualified as fraud investigators. The latter raises some concern that there may be scope to improve the quality of fraud investigations carried out within the Council. The Internal Audit service has plans to address this issue and it has taken some steps towards it in recent years:
- CIPFA Accredited Counter Fraud Specialist (CACFS) CIPFA certificate – a former member of staff commenced this in-depth professional qualification, but left the employment of the authority before completing it.
 - CIPFA Accredited Counter Fraud Technician (CACFT) – three members of the Internal Audit Section completed this introductory level qualification in 2015/16.
 - Promotion of the CACFS certificate in the current round of Employee Performance & Development Reviews
- 3.3 The approved audit plan for 2016/17 incorporates a number of assignments that will contribute to the update of the FRA. In addition to these audits, the Internal Audit Plan also contains an allocation of days each year for carrying out pro-active counter-fraud work in support of the Council's Counter-Fraud Strategy. In 2016/17, the Internal Audit Service plans to introduce a periodic publication to serve the twin aims of raising awareness of fraud issues and spreading good practice in internal control.
- 3.4 In addition to Internal Audit's contribution, other developments within the Council over the next 12 months include the following:
- Fraud Response Plan - review by HR colleagues of the Council's protocol for referring suspected fraud cases to the Police, to ensure the arrangements and requirements are clearly set out and understood across the Council. This will include ongoing dialogue with the Police on the suspected fraud cases the Council detects.
 - Pension fraud - assessment by colleagues in the Business Services Centre of mortality screening services.



**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND
IMPROVEMENT**

INTERNAL AUDIT FOLLOW-UP PROCEDURE

Purpose of the Report

1. To propose a revised procedure for the follow-up of management actions to implement Internal Audit recommendations.

Information and Advice

2. It was resolved at the previous meeting of the Committee, in March 2016, that members wished to receive periodic updates on the implementation status of high priority Internal Audit recommendations. It was determined that an update report would be prepared for the September 2016 meeting.
3. Internal Audit has recently implemented 'audit automation' software, with the aim of enhancing the efficiency of the service. The new software incorporates action tracking functionality, and the service has identified that this feature will facilitate improvements being made to the current follow-up procedure.

Current follow-up procedure

4. The current follow-up procedure has been in place for a number of years and is based around the audit opinion in each report issued by Internal Audit. The opinion category determines how agreed recommendations are followed up, as indicated below:
 - Limited Assurance – Internal Audit carries out a follow-up review approximately six months after the date of the audit report. The follow-up covers all recommendations made in the original report, including high, medium and low priority recommendations. A separate report is issued for all follow-ups.
 - Reasonable and Substantial Assurance – all recommendations are followed up the next time the service area is reviewed as part of a future Annual Internal Audit Plan. This may be after three to five years, depending on the relative priority rating the service area is assessed at in preparing each year's Annual Plan. Any issues arising from failure to implement previous recommendations are raised in the report at the next audit.
 - Where the follow-up of 'Limited Assurance' reports concludes that limited progress is being made in implementing the agreed actions, a second follow-up is scheduled. Should that second follow-up also conclude that limited progress is being made, the report is referred to the Audit Committee and relevant service directors and/or service managers are requested to attend to provide an update.
5. There are a number of drawbacks to the current approach:

- There may be high priority recommendations raised in reports with an overall opinion of 'reasonable assurance', but these are not followed up in a timely manner.
 - The follow-up of 'limited assurance' opinions incorporates all recommendations raised in the previous report, including those ranked as 'low priority'. Put together with the first drawback, above, this means the service is unlikely to be making the best use of the time it allocates for following up recommendations.
 - The current procedure can provoke confusion among managers regarding the opinion expressed after the follow-up of limited assurance reports. There can be an expectation that the original audit opinion will be upgraded to 'substantial assurance' if it is found that all agreed recommendations have been implemented. This is not generally possible, as follow-ups only focus on the implementation of agreed actions to address specific weaknesses, and do not comprise a full re-review of the service area to confirm that all key aspects of control continue to operate effectively. Follow-up opinions have recently been amended to focus on whether substantial, reasonable or limited **progress** is being made with implementing agreed recommendations.
6. The current follow-up arrangements do not provide for timely assurance to be provided in a consistent manner, and they do not enable the Internal Audit service to maximise its impact in the Council.

Proposed follow-up procedure

7. The enhanced action tracking functionality in the Internal Audit service's automation software facilitates the follow-up procedure to be revamped around the priority-rating of the recommendations raised by Internal Audit, rather than the overall opinion of a service area's controls.
8. A two-stage approach is proposed, as follows:
- a) Using the implementation dates proposed by management for the actions agreed, prompts will be issued to managers to provide an update on the implementation status of all actions, covering high, medium and low priority issues.
 - b) Internal Audit will schedule follow-up compliance testing, to provide independent assurance of the satisfactory implementation of higher priority actions.
9. All management actions are loaded in the Internal Audit software, and this will provide a basis on which to request management updates. These status updates will provide a first level of assurance within the Council that the agreed improvements have been put in place.
10. It will not be possible for Internal Audit to carry out follow-up testing for every management action. It is proposed that Internal Audit's follow-up time is applied in accordance with the priority rating of the recommendations raised, as follows:
- a) High priority recommendations – all management actions relating to these recommendations will be scheduled for follow-up testing by Internal Audit. The timing of the follow-up work will be dependent on a number of factors –
 - the proposed date of implementation by management
 - confirmation from management that the agreed actions have been implemented
 - where appropriate, allowance of a reasonable period of time to allow the Internal Auditors to provide assurance that the improved control is being applied consistently.
 - b) Medium priority recommendations – selected actions to be followed up by Internal Audit. These are likely to include those in service areas for which high priority recommendations have also been made, plus a sample of others during the year. The timing of Internal

Audit's follow-up of these recommendations will be scheduled in accordance with the same factors as for high priority actions.

- c) Low priority recommendations – no Internal Audit testing will be carried out, as it is considered that sufficient reliance can be placed on the implementation updates to be received from management.

Reporting

11. It is proposed that a routine follow-up report is produced half-yearly for the Audit Committee, to continually capture the implementation status of management actions. Progress reports will also be presented at least half-yearly to the Corporate Leadership Team and departmental leadership teams.
12. The format of the half-yearly report will be kept under review as the revised procedure becomes embedded. A suggested format for an action tracking report is presented in **Appendix 1**. It is proposed that the covering report for the action-tracker will include the following:
- a) Date of the report
 - b) Commentary on the progress with implementation to date of high priority actions, highlighting the following:
 - High priority actions implemented since the date of the previous follow-up
 - High priority actions rescheduled by management
 - Follow-up testing rescheduled by Internal Audit
 - High priority actions that Internal Audit testing shows have not been implemented satisfactorily, providing brief details of the testing carried out, the test failures identified and the updated management response.
 - Service Directors/Managers due to attend the Audit Committee to provide an update on progress with implementing high priority actions.
 - c) The summary position with regard to the implementation status of medium and low priority actions, focusing on implementation rates and presenting details, by exception, of medium priority actions that have not been implemented as agreed.
 - d) Summary of planned follow-up activity in the coming period, highlighting high priority actions due to be implemented and high priority actions due to be tested by Internal Audit.
13. It is proposed that follow-up reports will be structured around departmental areas of responsibility, enabling reporting to be effected at both departmental and corporate levels. Proposed reporting routines are set out below:
- Draft follow-up reports to be presented to Departmental Leadership Teams for discussion. The content of these reports will be restricted to each department's service areas, plus audits carried out on a cross-departmental basis. Circulation of the draft reports will also include the Service Director – Finance, Procurement & Improvement and the relevant Finance Business Partners.
 - Final versions of the follow-up report will cover all areas of service and be presented initially to the Corporate Leadership Team, for discussion.
 - The report will be presented to the March and September meetings of the Audit Committee. When circulating the report to the Audit Committee members, the following

councillors and other stakeholders will also be included, to ensure compliance with the existing arrangements for the circulation of Internal Audit reports–

- Leader
- Opposition Group Leaders
- Finance & Property Committee Chair & Vice-Chair
- Service Committee Chairs and Vice-Chairs
- External Audit

Officer updates to the Audit Committee

14. A strength of the present follow-up arrangements is the request for Service Directors and/or Service Managers to attend the Audit Committee to provide an update on areas where limited progress is being made with implementing agreed actions. Currently, managers' attendance is requested where two successive follow-ups have identified limited progress. It is considered that the involvement of the Audit Committee in this regard is a key factor in ensuring agreed changes are driven through.
15. Under the revamped procedure, it is proposed that Service Director/Manager attendance at the Audit Committee should be retained and requested in the following circumstances:
 - a) Where management implementation updates declare that high priority actions have not been implemented as agreed.
 - b) Where the outcome of Internal Audit follow-up testing shows that high priority actions have not been implemented.
16. The above would remove one layer of follow-up before involving the Audit Committee and so speed up the impact the Committee can have in driving through improvements.
17. The above carries the potential for several Service Directors/Managers to be requested to attend an Audit Committee if there are numerous high priority actions that have not been implemented as agreed; this could raise difficulties for the smooth running of the meeting. Whilst acknowledging this risk at this stage, there are a number of ways in which this could be managed. It is proposed that options to address this scenario be considered, as they arise, as part of the pre-agenda meetings.

Other Options Considered

18. The present arrangements for following up Internal Audit recommendations could be retained.

Reasons for Recommendations

19. To maximise the effectiveness of Internal Audit's use of resources in following up actions agreed by management to implement recommendations.
20. To provide more timely assurance to the Council that agreed improvements in its system of internal control are being implemented promptly.

Statutory and Policy Implications

21. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That the proposed changes to the arrangements for following up the agreed management actions to implement Internal Audit recommendations are approved for implementation in the current financial year.

Nigel Stevenson
Service Director (Finance, Procurement and Improvement)

For any enquiries about this report please contact:

Rob Disney
Head of Internal Audit

Constitutional Comments (SLB 09/05/2016)

22. Audit Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 06/05/16)

23. There are no specific financial implications arising directly from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Proposed outline format of reports on the follow-up of Internal Audit recommendations

Action Ref.	Action Description	Priority Rating	Implementation date (original & revisions)	Management Update	Internal Audit follow-up status	Internal Audit follow-up outcome	Action Status
Department: D1							
Service Area: S1							
Audit: A1							
101	Action 101	High	30/09/16	Implementation confirmed	Scheduled for March 2017		Confirmed by management
102	Action 102	High	30/09/16	Implementation confirmed	Scheduled for March 2017		Confirmed by management
Service Area: S2							
Audit: A3							
107	Action 107	High	30/06/16	Implementation confirmed	Testing completed Sep 16	Testing confirms satisfactory implementation.	Confirmed by Internal Audit
Department: D2							
Service Area: S4							
Audit: A5							
115	Action 115	High	01/07/16	Implementation confirmed	Testing completed Oct 16	Testing identifies non-compliance with the revised control. Management committed to immediate action to resolve.	Further follow-up Mar 17



**REPORT OF SERVICE DIRECTOR - FINANCE, PROCUREMENT AND
IMPROVEMENT**

INTERNAL AUDIT ANNUAL REPORT – 2015/16

Purpose of the Report

1. To inform Members of the Head of Internal Audit's Annual Report on the work carried out by Internal Audit in 2015/16, and based on this work, his opinion on the adequacy of the County Council's internal control environment.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The Audit Service worked to the Public Sector Internal Audit Standards during 2015/16. One requirement of the Code is that the Head of Internal Audit should provide an annual, written report to those charged with governance. The report must:-
 - a) deliver an annual internal audit opinion that can be used by the organisation to inform its governance statement
 - b) conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
 - c) incorporate the opinion, a summary of the work that supports that opinion, and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
4. The Head of Internal Audit has set out the work completed during 2015/16, provided an analysis of the Audit Opinions reached in individual audits during the year, identified all those reports where the Opinion was that the level of internal control was for limited assurance, and come to a conclusion on the overall system of internal control.
5. The Head of Internal Audit's conclusion is that the **overall system of internal control was satisfactory during 2015/16.**
6. The Annual Report also sets out an analysis of the Audit Section's performance during 2015/16. Resource issues hampered the service's progress during the year, and action is being taken to resolve these for delivery of the 2016/17 Audit Plan. Despite these challenges,

the work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.

Other Options Considered

7. The Audit Section worked to the Public Sector Internal Audit Standards during 2015/16. This report meets the requirement of the Standards to provide an Annual Report. No other option was considered.

Reason/s for Recommendation/s

8. To set out the Annual Report of the Head of Internal Audit for 2015/16.

Statutory and Policy Implications

9. The Local Government Act 1972 requires, in Section 151 that the Authority appoint an officer who is responsible for the proper administration of the Council's financial affairs. The Service Director – Finance and Procurement is the designated Section 151 officer within Nottinghamshire County Council. Section 6 of the Accounts and Audit Regulations 2011 requires Local Authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The County Council has delegated the responsibility to maintain an internal audit function for the Authority to the Service Director - Finance and Procurement.
10. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That Members note the Head of Internal Audit's Annual Report for 2015/16 and comment accordingly.

Nigel Stevenson
Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:

Rob Disney
Head of Internal Audit

Constitutional Comments (SLB 09/05/2016)

11. Audit Committee is the appropriate body to consider the content of this report.

Financial Comments (SES 06/05/16)

12. There are no specific financial implications arising directly from this report.

Background Papers.

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972:

- The Audit Reports set out in Appendix 2 of the Annual Report are available as background papers.

Electoral Division(s) and Member(s) Affected

- All

Internal Audit Annual Report 2015/16

Contents

Purpose of the Report	2
Information and Advice	2
Summary of Internal Audit Work for 2015/16.....	2
Annual Governance Statement.....	5
Internal Audit Performance Indicators	6
Quality Assurance and Improvement Programme (QAIP)	7
Conclusion.....	8
Appendix 1: Internal Audit Plan Progress 2015/16	
Appendix 2: Audit work completed 1 April 2015 to 31 March 2016	
Appendix 3: Audit Reports issued in 2015/16 with a ‘Limited Assurance’ opinion	
Appendix 4: Comments made by auditees in response to audits in 2015/16	
Appendix 5: Quality Assurance and Improvement Programme	

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2015/16 and, based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
 - a) determine and monitor the achievement of the Authority's objectives
 - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
 - c) facilitate policy and decision making
 - d) ensure the economical, effective and efficient use of resources
 - e) ensure compliance with established policies, procedures, laws and regulations
 - f) safeguard the Authority's assets and interests
4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. It is good practice to provide a progress reports on Internal Audit work to senior management (CLT) and the Board (Audit Committee) and this report satisfies this expectation.

Summary of Internal Audit Work for 2015/16

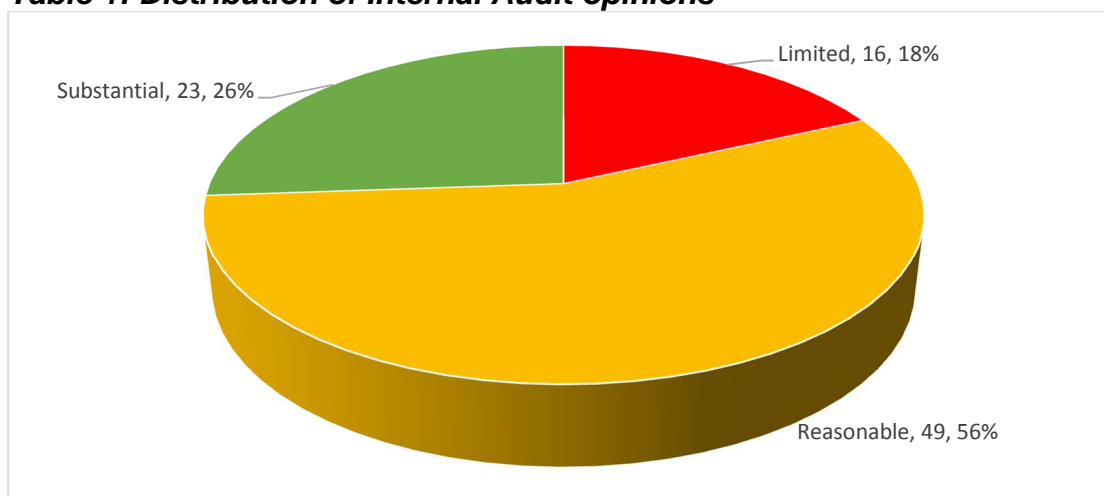
5. The graph in **Appendix 1** depicts achievements against the audit plan for 2015/16. Achievements are expressed in terms of the following:
 - Inputs – the number of audit days delivered against the plan
 - Outputs – the number of jobs completed against the plan
 - Productivity indicator – the target score is 1, indicating that all jobs have been completed on time and using the allocated number of days.
6. Productivity in 2015/16 was 0.81, meaning that fewer jobs than planned were completed within the days utilised. The key factors giving rise to the shortfall are summarised below:
 - sickness absence – two cases of long-term absence, both of which are now resolved
 - Implementation of an audit automation system – this has required more internal resource than anticipated, but it is expected that the system will deliver efficiency benefits from the new financial year

- Investigations – a number of irregularities and whistleblower reports have been investigated. These jobs generally need more time to carry out than routine audits, and this can impact the number of jobs completed.
- In the fourth quarter, the Section was also impacted by the start of the 12 month career break of the Head of Internal Audit.

As a result of these factors, it has not been possible to carry out all of the audits in the 2015/16 Plan. Deferred audits have been rescheduled as part of the annual audit needs assessment.

7. Despite the above, a wide range of audit work was completed during the year. **Appendix 2** sets out details of all final reports, draft reports and written advice, covering the following key types of Internal Audit input:
 - Assurance audits, for which an audit opinion is issued
 - Advice and consultancy – often relating to key developments and initiatives
 - Counter-fraud – including the investigation of suspected fraud and whistleblower reports
 - Certification audits – generally small jobs to sign off returns and accounts.
8. Most of Internal Audit's assurance work results in the issue of an opinion on the financial controls and procedures in place, categorised as follows:-
 - *Substantial Assurance* – there are no weaknesses or only minor weaknesses
 - *Reasonable Assurance* – most of the arrangements for financial management are effective, but some weaknesses have been identified
 - *Limited Assurance* – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.
9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2015/16. Based on this, we can conclude that **a satisfactory level of internal control is in operation in the Council.**

Table 1: Distribution of Internal Audit opinions



10. Table 2, below, analyses the opinions given on the individual reports by department.

Table 2: Analysis of Audit Opinions during 2015/16

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	1	3	3	7
Schools	13	26	8	47
Adult Social Care, Health and Public Protection	3	4	3	10
Resources	5	5	-	10
Place	-	7	-	7
Cross-cutting	1	1	2	4
TOTALS	23	46	16	85
Percentage	27%	54%	19%	

11. The work in 2015/16 has identified some areas in which internal controls need to be strengthened, most notably in the 16 areas for which a 'limited assurance' opinion was issued. Details of these reports are presented in **Appendix 3**. The weaknesses identified covered a diverse range of issues, including the need for:
- Consistent compliance across the Council with aspects of Financial Regulations and other key corporate policies
 - Stronger controls in the care services over the management of service user monies, to protect the interests of both service users and Council staff
 - Improved budget monitoring and management information in some areas of service
 - Ongoing maintenance of established agreements to support partnership working.
12. Over the past few years, the composition of the Internal Audit Annual Plan has been changing to assess risks on a more cross-cutting, Council-wide basis. These reviews are identifying inconsistent levels of compliance with the Council's governance framework. Service areas are also becoming more complex, as the Council's transformation agenda is driven through to tackle increasing demand for services at a time of significant reductions in resources. These are felt to be factors in explaining the trend in audit opinions over the last seven years, as shown in Table 3.

Table 3: Trend in Audit Opinions over the last 7 years

Year	Number of reports	Substantial Assurance	Reasonable Assurance	Limited Assurance
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)
2011/12	133	43 (32%)	76 (57%)	14 (11%)
2012/13	98	29 (30%)	54 (55%)	15 (15%)
2013/14	105	28 (27%)	69 (65%)	8 (8%)
2014/15	98	30 (31%)	61 (62%)	7 (7%)
2015/16	85	23 (27%)	46 (54%)	16 (19%)

13. It is evident from the above that the incidence of 'limited assurance' opinions increased over the past year, with almost one in five reports identifying significant control issues to be addressed. As stated above at paragraph 9, Internal Audit's opinion remains that the overall level of internal control in the Council is satisfactory. Nonetheless, the Annual Governance Statement for 2015/16 draws attention to this downturn in the level of assurance provided by the reports over the past 12 months as a current area of significance for the Authority to manage.
14. Internal Audit provided advisory input to a number of key developments in the Council during the year; these are identified in Appendix 2 as 'Advisory and consultancy' input to each department. This type of input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers indicates that this type of input is valued.
15. Internal Audit was involved with a number of irregularity investigations during the year. Details of this work are incorporated in the Annual Fraud Report for 2015/16, which is the subject of a separate report to the Audit Committee.

Annual Governance Statement

16. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority's system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit's work contributes to the assurance process detailed in the Annual Governance Statement.
17. The individual audit opinions set out in paragraphs 9 and 10 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As shown in Table 1, 82% of the audits undertaken identified that appropriate controls were in place, therefore Internal Audit's overall opinion is that the Authority's system of internal control is satisfactory.

However, 18% of systems or procedures were found to provide limited assurance, and Appendix 2 shows that a total of 76 high priority recommendations were made. Additional work is carried out on these areas to ensure that agreed improvements are realised, or continuing concerns are reported to the Audit Committee.

18. A proposal to revamp Internal Audit’s follow-up processes has been made in a separate report to the Audit Committee. The objectives of the changes are to ensure an appropriate level of focus on the high priority issues and to help drive through planned actions promptly.

Internal Audit Performance Indicators

19. Progress against the Section’s performance indicators, as at 31 March 2016, is detailed in the following table:

Table 4: Internal Audit Performance Indicators 2015/16

Performance Measure/Criteria	Target	Outcome as at 31/3/16
Comply with Public Sector Internal Audit Standards	Compliance achieved	Substantial Compliance
Completion of Audit Plan - Days - Jobs	90% 90%	87% 71%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.69 where 1 is excellent and 2 is good)
Recommendations agreed	95%	98%
External Audit Reliance on Internal Audit	Positive	Positive

20. Resourcing issues have been the most significant challenge for the section during the year, as described above at paragraph 6. A revised structure for the section was approved by the Finance and Property Committee at its February meeting. Once fully staffed and with responsibilities reassigned to build greater resilience, the revised structure will bolster the level of resources in the section at the Senior Auditor level. This will enable the Section to respond effectively to the demands placed on it. Use is also being made of temporary resources, and the possibility of establishing a partnership, either with another public sector provider or with a private sector provider, will be kept under active review. The key aim of such a partnership would also be to deliver greater resilience in the audit service.

21. Despite the challenges, the work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.
22. During the year, the section continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (98%). A copy of detailed comments made on individual audits is included as **Appendix 4**. Overall the comments are very positive, with appreciation expressed for the professional and approachable manner in which audits are completed. Where concerns are expressed, these are followed up individually with the client.
23. The net audit cost per £1m turnover for 2015/16 was £279, which is significantly below the county council average. The net cost of the audit service was £364k against a budgeted cost of £396k. The net budget for 2015/16 is £327k, representing a reduction for the Section's contribution to the Council's savings target.

Quality Assurance and Improvement Programme (QAIP)

24. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a QAIP to ensure that appropriate quality standards are being applied. An initial review was carried out and the results reported to the Audit Committee in March 2014, together with an Action Plan to address identified weaknesses. Progress against this action plan was reported to Committee in June 2015.
25. An updated QAIP has been developed and is attached as **Appendix 5**, setting out issues to be actioned over the coming year.
26. The QAIP has been informed by an internal assessment of the Internal Audit Section's compliance with the PSIAS, carried out by the Head of Internal Audit. In the following respects, the County Council does not comply with the standards, and compensatory arrangements are described
 - a) The requirement for the Chief Audit Executive (Head of Internal Audit at Nottinghamshire County Council) to report to an organisational level equal or higher than the corporate management team is not met. In practice, the Head of Internal Audit's line manager is the Service Director - Finance, Procurement and Improvement. This does not hinder the Head of Internal Audit's direct access to the Chair of the Audit Committee, the Chief Executive or other members of the Corporate Leadership Team. From 2016, the Head of Internal Audit will meet quarterly with the Chief Executive, the Monitoring Officer and the Section 151 Chief Financial Officer to discuss governance issues.
 - b) The requirement for the appointment and removal of the Chief Audit Executive to be approved by the Board is not met, as this is dealt with by delegated powers under the Constitution.
 - c) The Board is not responsible for approving the budget and resource plan of Internal Audit. However, the Audit Committee receives, and has the

opportunity to comment upon, information concerning the size of the annual budget for Internal Audit, its staffing structure and the overall cost of the service per £1m of the Council's budget.

27. Notwithstanding the above and the areas for improvement set out in the QAIP, the Head of Internal Audit's self-assessment against the required standards has confirmed the following in respect of the work carried out by the service in 2015/16:
- a) The service applied a systematic, risk-based approach to the assurance work it delivered
 - b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards
 - c) There were no impairments to the independence and objectivity of the service during the year.

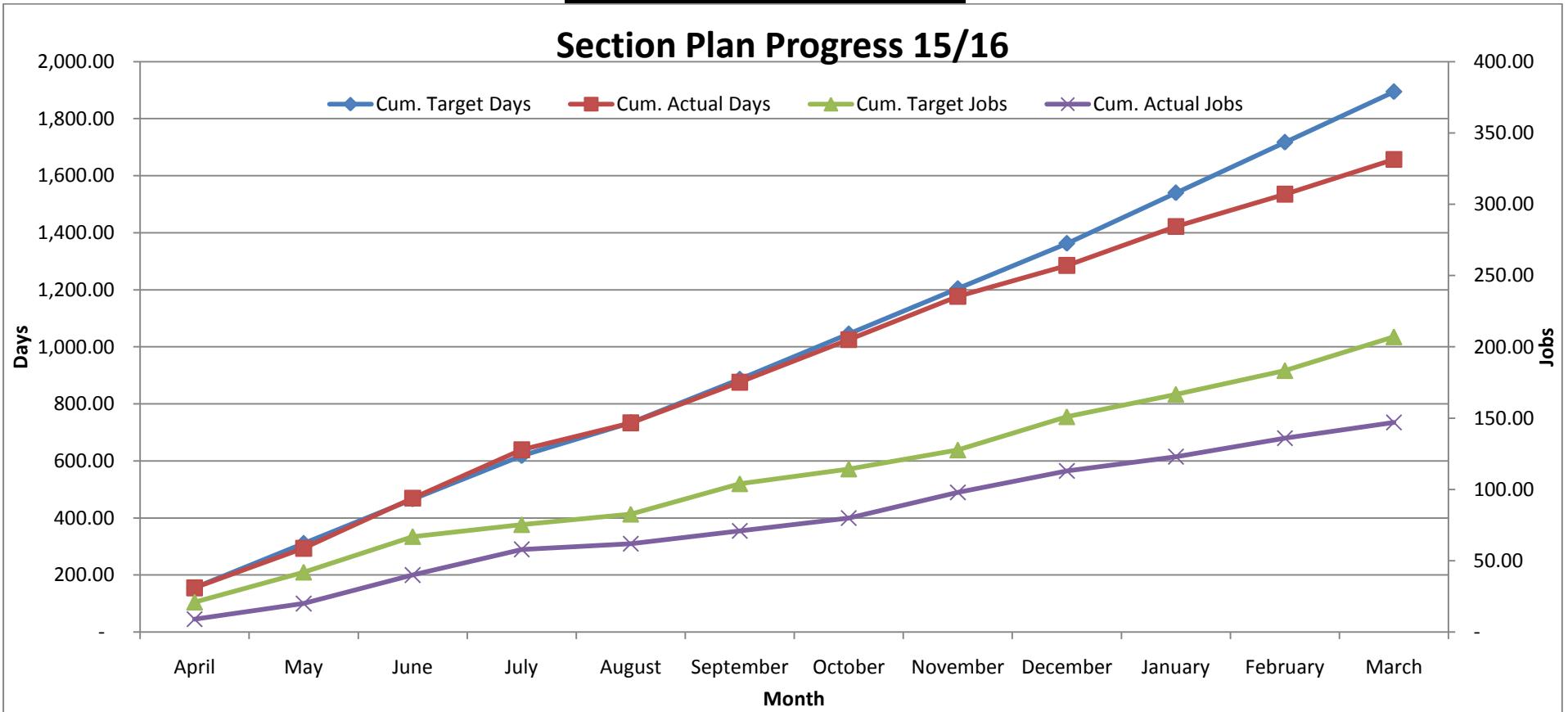
Conclusion

28. The work undertaken by Internal Audit during 2015/16 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. Of the systems and procedures reviewed, 18% were found to provide limited assurance. Action plans have been agreed to address these concerns and follow-up audit work will be carried out to ensure that these areas are addressed.

Rob Disney CPFA
Head of Internal Audit
Nottinghamshire County Council

INTERNAL AUDIT PLAN 2015/16

Section Plan Progress 15/16



Productivity 0.81

INTERNAL AUDIT PLAN 2015/16
Audit work completed 1 April 2015 to 31 March 2016

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made & priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
ADULT SOCIAL CARE, HEALTH & PUBLIC PROTECTION									
Assurance work									
Care and support centres	Limited	3	4	8	-	3	4	8	-
Continuing healthcare	Reasonable	1	3	2	-	1	3	2	-
Residential & nursing care – client contributions	Reasonable	1	4	4	1	1	4	3	1
Client finance – deputyships and appointeeships	Substantial	-	-	2	-	-	-	2	-
Locality based client accounts	Limited	3	8	-	1	3	8	-	1
Supported living and Care, Support & Enablement contract	Reasonable (in draft)	-	5	-	-				
Better Care Fund – governance, performance & reporting	Substantial	-	3	2	-	-	3	2	-
Market development and care standards	Reasonable	1	2	-	-	1	2	-	-
Public Health performance management	Substantial	-	1	-	-	-	1	-	-
Shared Lives – funding of carers & financial safeguarding	Limited	7	6	-	-	7	6	-	-
Advisory & consultancy									
Key audit findings and financial regulations training									
Domiciliary care – procurement		20 (not prioritised)				20			
Domiciliary care - contract management		14 (not prioritised)				14			
Direct payments – post investigation systems review		34 (not prioritised)							
Trading Standards – banking cash seizures advice									
Care, Support & Enablement contract – remittances advice									
Direct Services proposed LATCO – Business Case advice									
Friary Fields Care Home – unreported death advice									
Counter-Fraud									
Direct payments investigation									
Certification									

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made & priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
Scambusters grant									
Operation Spinnaker									
Sub-Total (excluding draft reports)		16	31	18	2	16	31	17	2
CHILDREN, FAMILIES & CULTURAL SERVICES									
Assurance work									
Home to school transport	Reasonable	-	3	5	5	-	3	5	5
Adoption – financial support	Substantial	-	2	1	-	-	2	1	-
School swimming service	Limited	4	2	1	1	4	2	1	1
Locality based client accounts	Limited	2	8	-	-	2	8	-	-
Libraries, archives, arts & learning	Reasonable	-	13	1	-	-	13	1	-
Early Years education funding	Reasonable	-	7	-	-	-	7	-	-
External placements	Limited (in draft)	3	8	1	-				
Advisory & consultancy									
Sherwood Energy Village imprest account advice		9 (not prioritised)				9			
Trade Union Facilities budget – advice		4 (not prioritised)				3			
Young people’s centre accounts - cash book advice									
Young people’s centre accounts – written guidance advice									
Children’s centre contract – open book accounting advice									
Minster View – loss of petty cash advance advice									
Leaving care funds – accounting treatment and purchasing									
Certification									
Beeston Youth & Community Centre									
Sub-Total (excluding draft reports)		6	35	8	6	6	35	8	6
SCHOOL AUDITS									
Assurance work									
Secondary schools	3 Substantial	-	13	4	-	-	13	4	-

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made & priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
	1 Reasonable	-	8	1	-	-	7	1	-
Primary schools	10 Substantial	-	51	15	-	-	50	15	-
	25 Reasonable	13	208	45	-	13	200	45	-
	8 Limited	28	119	22	-	28	118	22	-
Counter-Fraud									
William Lilley Infant School – cheques investigation									
Sub-Total (excluding draft reports)		41	399	87	-	41	388	87	-
RESOURCES									
Assurance work									
Customer service centre	Reasonable	1	2	6	-	1	2	6	-
Civica pensions project advice	Reasonable	-	2	-	-	-	2	-	-
ICT active directory	Reasonable	1	2	-	-	1	2	-	-
Pension fund management	Reasonable	-	2	6	-	-	2	6	-
ICT Mobilisation	Substantial	-	-	-	-	-	-	-	-
Capita One	Reasonable	-	1	-	-	-	1	-	-
ICT Vendor management	Substantial	-	2	-	-	-	2	-	-
ICT strategy & operating model	Substantial	-	1	-	1	-	1	-	1
ICT change and release	Substantial	-	1	-	-	-	1	-	-
Payment Card Industry Standards compliance	Substantial	-	1	4	1	-	1	4	1
Advisory & consultancy									
Pensions Service advice									
Pensions to payroll data match									
Sub-Total (excluding draft reports)		2	14	16	2	2	14	16	2
PLACE									
Assurance work									

Audit Area	Opinion (for assurance work only)	Recommendations made & priority rating				Recommendations agreed			
		H	M	L	VFM	H	M	L	VFM
Highways capital schemes	Reasonable	-	9	4	-	-	9	4	-
Highways operations	Reasonable	-	2	1	4	-	2	1	4
Fleet and plant management	Reasonable	-	3	6	-	-	3	6	-
Property operations	Reasonable	1	3	-	4	1	3	-	4
Broadband project	Reasonable	1	3	2	1	1	3	2	1
Catering service (West Bridgford campus)	Reasonable	1	6	7	1	1	6	7	1
Bus Stations' income	Reasonable	-	5	1	-	-	5	1	-
Advisory & consultancy									
Highways workflow		9	2	4	-	9	2	3	-
LEADER programme									
Highways ASDM – advisory input									
Property JV – advisory input									
Counter-Fraud									
Catering - West Bridgford campus whistleblower allegations									
Property service whistleblower allegations									
Certification									
Carbon reduction return									
Bus Services Operating Grant									
Platt Lane playing fields accounts									
Sub-Total (excluding draft reports)		12	33	25	10	12	33	24	10
COUNTY-WIDE REVIEWS									
Assurance work									
Information governance	Limited	4	19	6	-	4	19	6	-
Annual Governance Statement	Substantial								
Agency staff and consultants	Limited (in draft)	3	2	1	-				
Performance Management	Reasonable (in draft)	-	6	1	-				
Advisory & consultancy									

<u>Audit Area</u>	<u>Opinion</u> (for assurance work only)	<u>Recommendations made & priority rating</u>				<u>Recommendations agreed</u>			
		<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>	<u>H</u>	<u>M</u>	<u>L</u>	<u>VFM</u>
Imprest accounts £30 limit exemptions - advice									
Counter-Fraud									
Transparency code									
National Fraud Initiative and Fraud Alerts									
Sub-Total (excluding draft reports)		4	19	6	-	4	19	6	-
Grand Total (excluding draft reports)		79	511	151	18	79	500	149	18

Audit Reports issued during 2015/16 which had a “Limited Assurance” Audit Opinion

ASCH 1511 – Care and Support Centres – June 2015. The key risks identified were failure to have up-to-date agreements with health partners on provision of beds, central coding of income precluding accurate management information and lack of a current service plan. In addition bed charges had been set in 2011 and there was inappropriate management of personal care income. Fifteen recommendations were made and agreed to address control weaknesses.

CFCS 1602 – School Swimming Service – September 2015. The majority of the risk areas were being effectively managed. However, the key concern arose from an ongoing overspend against the budget. Although the level of income for 2014/15 was in excess of the budgeted income, this was more than offset by the overspend on expenditure. This trading pattern suggests poor control of costs or incorrect pricing. Recommendations have been agreed to address this.

XC 1506 – Information Governance – July 2015. This audit covered a comprehensive range of issues arising from the need to manage information effectively. A total of 29 recommendations were made and agreed to address identified weaknesses. These included, amongst other things, staff training, corporate awareness of security of information, access to offices, vetting of staff, induction procedures, compliance with clear desk policy and third party access to systems.

ASC 1607 – Adults’ Locality-based client accounts – October 2015. The client account facility needs to be re-established following the change in the Council’s bank. Following this, there is scope to improve department-wide guidance, management and control of the accounts.

CFCS 1608 - Children’s Locality-based client accounts - November 2015 - report in draft. This draft highlights a need for a department-wide approach to the co-ordination and control of client accounts. This would enable greater consistency in the establishment, maintenance and management of the accounts.

XC 1602 - Agency staff and consultants - December 2015 - report in draft. A brief summary of key issues arising from this audit will be included in a future progress update, once the report has been finalised.

ASC 1617 – Shared Lives: funding of carers & financial safeguarding – February 2016

Carers and staff are not working closely enough with the guidance they have been given for managing service users’ monies, placing both service users and the Council at risk of financial abuse. An informal financial management arrangement between a service user and a carer was identified during the audit,

raising the risk that the carer's integrity could be comprised and a conflict of interest could arise.

CFCS 1612 – External Placements – February 2016 – report in draft

A brief summary of key issues arising from this audit will be included in a future progress update, once the report has been finalised.

School Budget Share audits. During the year, there were eight schools where a limited assurance audit opinion was provided. The audits of school budget share cover a broad range of areas including governance, expenditure, income, assets and information. Reports are provided to the Headteacher and the Chair of Governors for action.

Comments made by auditees in response to individual audits during 2015/16

Client	Comments
School	Please note difference of opinion between audit services and Governor services re timing of full Governor meeting to approve SFVS prior to return by 31 March. Governor Services/clerk to governing body states that like other policies from the LA, this can also be approved retrospectively.
External client	<p>While the process was prolonged, due to various NFRS issues, it was very helpful & revealing from my point of view. L was extremely thorough. She made herself almost invisible while she was working within the department and had no impact on our day to day operations, despite her own concerns.</p> <p>I sent her a lot of information via Email and hardcopies, while L didn't express any major concerns I felt it might have been easier for all concerned if she the auditors had access to hand scanners and external hard drives to enable them to carry large amounts of information around electronically rather than the hard copy.</p> <p>All in it was a very easy and pleasant process thanks to L.</p>
School	The Auditor was extremely thorough and pleasant and we were happy with the Audit process.
School	<p>D was our auditor on site and she was friendly, approachable and helpful. We were able to discuss our procedures openly and honestly with her and get a fair reflection in our report.</p> <p>A couple of the recommendations will need some adjustment to accommodate. One is that currently our heads of department sign their orders which are sent to our finance team. We process the order and send back the paperwork for them to check that they have received the goods. D would like us to keep a copy in the finance office. We need to work out a system to comply with this without copying every order.</p> <p>The second recommendation relates to us processing income (IMT income) into the IMT expenditure account and we acknowledge the point made but it works in practice better this way.</p> <p>We are pleased with the service that you offer both during audits and throughout the year and we were very happy with D.</p>
ASCH&PP	<p>I have found the audit to be very useful both in terms of helping us to identify where there were issues and in strengthening our existing policies and procedures. The audit has also helped us to explain to some carers just how important it is that they keep clear and accurate records.</p> <p>I found the recommendations and action plan easy to follow and all recommendations have been implemented.</p> <p>Thank you.</p>

Client	Comments
CFCS	<p>Great process – involved a lot of the team and effective use of time by the team who engaged in the work.</p> <p>The service was very professional.</p> <p>Some of the recommendations from the report were completed prior to the report, but it is very useful for me as the Group Manager to receive an external view of our processes, to help strengthen and improve these.</p> <p>Thank you.</p>
School	<p>I have [found] all members of the audit team to be helpful and supportive. All recommendations are appreciated to ensure financial regulations are followed correctly.</p>
School	<p>The report is factually accurate, however we did not feel that the Auditor took any notice of information school provided. Recommendations or any consideration of practicalities e.g. how many people does a school need to employ to undertake the number of checks the Auditor requires.</p>
School	<p>The issue of audit recommendations on an annual basis - as a reference tool - would be useful. Especially if requirements change. If these already exist on the portal then a letter pointing office staff in the right direction to find them would be helpful - on an annual basis.</p>
School	<p>Several audit recommendations were made, we found all of these to be of high benefit and have incorporated nearly all the recommendations with immediate effect, the Finance Policy is due for update and will be updated as soon as the next Local Authority Finance Policy is available which I understand will probably be early in the new year 2016 and this will then take into account the audit recommendations.</p> <p>We feel that the recommendations will support good practice within the school office and that additional countersigning will ensure accuracy within accounting practices.</p>
School	<p>The audit was very thorough. Some of the recommendations, although useful, are not always practical in a working school environment. For example, although we understand the importance of raising orders prior to receiving an invoice – this is not always possible.</p> <p>As for the following:</p> <p>When we have a fuel delivery (wood pellets) we do not know how much fuel is going to be delivered as they fill the hopper up and charge us accordingly – it is impossible to predict how much that charge will be as it is dependent on how much the hopper requires filling.</p> <p>We also use agencies to cover teaching staff illness – it is often dependent on who they send as to how much the fees will be – which can't always be predicted.</p> <p>We had thought that we had accounted for Nursery income on page 8 of our budget plan but will check with Finance about this when we do our next Budget Plan.</p>
School	<p>I have been most impressed with the support I have received when in contact with the NCC Audit. The questions asked have been answered and issues I have had resolved. Thank you for this.</p> <p>The audit itself was very constructive and suggestions made by Helen were relevant and taken on board, they have now been put into place.</p>

Client	Comments
Place	I feel the report was good and extremely helpful to move changes forward in the various daily operations, nearly all the recommendations have now been actioned. C was helpful and receptive to all information given.
School	Queries made by the auditor, which involved inaccurate figures, after the audit wasted a lot of time for my office staff.
ASCH&PP	B was a competent and professional auditor.
CFCS	The audit was carried out sympathetically to meet the service needs. It was carried out with great consideration for the team. The audit process was lengthy due to prior commitments for both parties. The wording on the initial audit findings was thought not to best represent and reflect the actual circumstances of the service, however following further discussions it was thought that all parties had a clearer perspective of the actual complex circumstances that the service found its self in and the final report was to be amended accordingly. The actual report layout could be changed with each point being numbered; this would help with the replies.
School	All points made are valid however not all are practical in the real world. Everything that can be implemented has been actioned with immediate effect.
Resources	I have a lot of respect for the Audit team and recognise and appreciate the difficulty that you have in undertaking your work whilst trying not to become intrusive to normal business operations. My experience is that this ordinarily goes to plan, however on this occasion it didn't go quite so well from my perspective. I think that the reason for this was largely down to the individual in the Audit team that did the work with us being slightly 'raw' to the workings of the Authority – he is/was, after all, here to learn as a trainee. The main issue was the number of times that he came back with requests for more detail, asking for further supporting information, which took up an inordinate amount of time to respond with and became somewhat disruptive. I hope that my comments are not seen as a complaint or negative, but hopefully they are received as an opportunity to help improve. I also hope that they may help B personally in the development of his future career - I will add that he came across as a very nice chap, easy to get on with, and very respectful. Thanks for the opportunity to comment.
Resources	P was extremely well organised and very supportive during a busy period for CFCS which was very much appreciated. The audit comprehensively covered areas of application management and support. It may be worth considering looking at auditing IT infrastructure / security arrangements for applications at the same time as auditing the functional arrangements and support.
ASCH&PP	It would be good to have a flow chart or similar listing the stages in the audit processing from initial scoping meeting to final report. It would also be beneficial to have the questionnaire issued at the final report stage and to be clear whether point (f) relates to the initial draft report or the final report.

Client	Comments
Resources	It was very useful to meet the Internal Audit rep at the start of the project as this gave us an indication of the areas we needed to cover and ensure any potential issues were identified and resolved during the life of the project and before any mobile devices were deployed. This made the follow up meeting very productive.
Cross-Cutting	The breadth and diversity of the audit detracts from its overall benefit in the management of information security and governance. The interim report covered a good scope and would have been sufficient for the purpose. A more focussed approach, say looking at information security would have been easier to address and respond to.
External client	The overall experience of the recent audit of our SharePoint system has been excellent and has provided a useful 'external' review of our solution.

Quality Assurance and Improvement PlanNottinghamshire County Council Internal Audit Service

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2016
Organisational Independence						
1	CAE should report to level of corporate management team	CAE reports to Service Director	Explain as part of Annual Report	Head of Internal Audit	June 2016	Explained in Annual Report
2	The Board approves the internal audit budget and resource plan	The Board does not approve the budget. This is a responsibility of Full Council	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2016	Explained in Annual Report
3	The Board approves decisions relating to the appointment and removal of the CAE	This responsibility is fulfilled by the Service Director under the Constitution.	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2016	Explained in Annual Report
4	The Chief Executive should contribute to the performance appraisal of the CAE	No formal contribution from the Chief Executive	Include in future performance appraisal	Service Director for Finance and Procurement	December 2016	
5	Feedback should be sought from the Chair of the Audit Committee for the CAE's performance appraisal	No formal contribution from the Chair	Include in future performance appraisal	Service Director for Finance and Procurement	December 2016	
Due Professional Care						
6	Consider the cost of consulting engagements in relation to potential benefits	Not formally considered and documented	Include this consideration in the engagement record for consulting assignments	Head of Internal Audit	Immediate	

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2016
<i>Reviewing the effectiveness of Internal Audit</i>						
7	A formal external review of Internal Audit must be completed once every five years, with the first being due by the end of 2017/18	External review has yet to be commissioned	Evaluate options for the external review of Internal Audit and seek approval of Audit Committee	Audit Committee to consider options presented by the Head of Internal Audit	March 2017	
8	Internal self-assessments of Internal Audit should be carried out by officers independent of the Section and with the appropriate knowledge and understanding of the required standards,	Self-assessments are carried out by the Head of Internal Audit	Determine whether an appropriate, independent officer is available within the Council to carry out an internal self-assessment prior to the commissioning of the external review	Head of Internal Audit to identify a suitable officer Appointed officer to carry out self-assessment	September 2016 March 2017	
<i>Policies and Procedures</i>						
9	Maintaining and audit manual to guide staff in the performance of their duties in compliance with the PSIAS	The current Audit Manual requires updating	Update the Audit Manual	Head of Internal Audit	September 2016	
<i>Nature of audit coverage</i>						
10	Review the organisation's ethics-related objectives, programmes and activities	Coverage as part of some planned audits, but no audit dedicated to this topic	Include a cross-cutting review of the organisation's culture and ethics as part of a future planning period	Head of Internal Audit	January 2017 as part of planning for 2017/18 audit plan	
11	Review the effectiveness of the organisation's risk management processes	The Head of Internal Audit is a member of the Risk Safety &	A dedicated cross-cutting review of risk management is	Head of Internal Audit	March 2017	

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2016
		Emergency Management Board, but a dedicated audit of this topic has not been carried out recently	included in the 2016/17 audit plan			
Communications						
12	Engagement results released outside the organisation should include limitations on distribution and use of the results	No caveat is placed on results released outside the organisation	A caveat has been developed but still to be actively used	Head of Internal Audit	Immediate	
13	Timeliness of communications	Some instances in recent years of assignments taking lengthy periods to complete and report findings	Timely completion of audit assignments to be monitored more closely through the introduction of 1:1 supervision sessions	Head of Internal Audit to carry out periodic 1:1 supervision sessions with all staff	From June 2016	
General efficiency and effectiveness of the service						
14	Identifying opportunities to improve the efficiency and effectiveness of the service	The Internal Audit Service Plan for 2016/17 includes actions to improve some aspects of the service	<ul style="list-style-type: none"> a) Embed the use of audit automation software b) implement revised time-recording and performance management module c) revise procedure for following up audit 	Head of Internal Audit	<ul style="list-style-type: none"> a) Immediate b) September 2016 c) September 2016 	

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2016
			recommendations			
Internal Audit Charter						
15	Internal Audit Charter is compliant with the current standards	The standards were revised with effect from April 2016 to include an Audit Mission statement and a set of Core Principles. The charter may need to be updated if proposals to revise the follow-up process are accepted.	Present an updated Internal Audit Charter to the Audit Committee for approval.	Head of Internal Audit	September 2016 meeting of the Audit Committee	



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

FINANCIAL REGULATIONS WAIVERS 2015/16

Purpose of the Report

1. To inform the audit committee about breaches of the Council's Financial Regulations from 1st April 2015 to the 31st March 2016.
2. To inform Members about requests to waive the Financial Regulations (waivers) in the same Period (1st April 2015 - 31st March 2016).

Information and Advice

3. The Council's Financial Regulations set out the procedures and standards for financial management and control that must be followed by officers. Compliance with the Regulations helps to ensure that:
 - There are robust systems of financial management and control
 - The finances of the Council are safeguarded from unnecessary risk
 - The Council achieves value for money in its procurement of goods and services
4. The Council may only contract with external parties within the legal framework for local Authority procurement i.e. in accordance with the UK Public Contracts Regulations 2015, the Council's Contract Procedure Rules and, also, the European Treaty principles of transparency, equal treatment, non-discrimination, proportionality and mutual recognition.
5. There are occasions where it is not practical or possible to procure contracts in accordance with the standard contract procedures. In such instances officers may request a waiver to the rules. The approval of such waivers ensures compliance with the Contract Procedure Rules. The waiver process acts as a peer challenge to such requests to ensure they have a valid reason for approval.
6. Waivers of Financial Regulations are normal activity whereby individual directorates request Section 151 Officer (S151) approval to vary procedures (with a good supporting reason) e.g. request to not obtain at least three written quotes because the number of suppliers is limited. Waiver requests must be considered by S151 who will determine whether they can be approved or not. The S151 may refer any request for a waiver to the Group Manager Legal for approval.

7. Waiver requests over the value of £25k (the threshold from when tenders must be sought) have to be approved by the Group Manager for Legal Services.
8. Waivers cannot be sought if they would result in a breach of European or domestic legislation or due to insufficient planning.
9. Section 9.3 of the Financial Regulations contains rules for the selection of suppliers including the number of quotations that must be sought (up to a certain level of contract value) after which a tender must be run. Section 9.5.1.1 specifies six categories of exception where the rules for obtaining quotations or running tenders can be suspended. (see Appendix 1)
10. Financial Regulations contain a requirement for the Group Manager - Procurement to annually report all breaches and waivers of the Regulations to Members of the Audit Committee.
11. The tables below summarise the number of waivers granted in 2015/16 compared to the previous year by directorate and value, the details for those waivers are contained in appendix 2, and the second table also provides a reasoning for those waivers in line with appendix 1.

Directorate	2015-2016				2014-2015			
	Number Waivers	Total Value	No. Rejected	Value Rejected	Number Waivers	Total Value	No. Rejected	Value Rejected
Resources	11	£402,740	1	£8,000	13	£430,025	0	£0
Adult Social Care, Health & Public Protection & Public Health	11	£1,891,176	1	£270,176	7	£298,885	0	£0
Children, Families & Cultural Services	6	£322,100	1	£137,300	7	£422,752	0	£0
Place	10	£4,638,691	1	£1,251,790	4	£131,403	0	£0
Schools	2	£180,000	0	£0	0	0	0	£0
TOTAL	40	£7,434,707	4	£1,667,266	31	£1,283,065	0	£0

	Reasons for waivers 2015-16 (see appendix 1 for further detail)						TOTAL
	1. Valid extension of contract	2. Call off from a contract	3. Repairs to existing machinery/software	4. Protection of life or Property	5. Corporate Director decision	6. Request to suspend under 1.7 of the regs *	
Number of waivers	2	2	3	6	22	5	40
Number of rejected waivers			(2 rejected at £1,521,966.00)	(1 rejected at £137,300)	(1 rejected at £8,000)		
Value of waivers	£23,500	£110,450	£1,565,917	£682,300	£1,881,450	£3,171,000	£7,434,707

*1.7 The Section 151 Officer, after consulting with the Group Manager for Legal Services, may vary, waive or suspend any regulation. Requests to waive Financial Regulations should be submitted in accordance with the approved waiver request procedure.

12. A more detailed summary of the waivers is attached at Appendix 2. The Committee are asked to consider and comment upon any of the waivers.
13. The total number of waivers has increased since last year and we have also seen an increase in the overall value. An analysis of the reasons for this increase from the previous year is concluded to be as a result of closer working relationships with the commissioners and the discovery of previously unknown projects. It is expected that 2016/17 will see a reduction in waivers as better controls and procurement planning is rolled out.
14. The largest number of high value waivers was for Place, with a significant increase in the value however it has to be noted that this can be attributed to one particular waiver that was sought in relation to a bond for approx. £3m.
15. Category management work continues with the directorates to develop procurement category strategies that will aid the continued reduction of waiver requests.

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members of the Audit Committee note the Financial Regulations Waivers 2015/16 And the continued progress in keeping waivers to a minimum.

Nigel Stevenson
Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:

Clare Winter - Group Manager, Procurement

Constitutional Comments (KK28.04.16)

17. The proposal in this report is within the remit of the Audit Committee.

Financial Comments (SS29.04.16)

18. There are no specific financial implications arising from the report. However, the Financial Waivers process itself is an important element of the Council's Financial Regulations, which exist to ensure that public money is safeguarded and that decisions taken by Council officers are lawful and provide value for money for local taxpayers.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the Documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Exceptions to the Requirement to Seek Quotations and Tenders.

Section 9.3 of the Financial Regulations contains rules for the selection of suppliers including the number of quotations that must be sought (up to a certain level of contract value) after which a tender must be run. Section 9.5.1.1 specifies five categories of exception where the rules for obtaining quotations or running tenders can be suspended. These five categories are:-

1. The work to be executed or the goods or materials to be supplied constitute the first valid extension of an existing contract, which has been procured through a Best Value exercise, provided that such an extension has received the necessary budget approval; and does not exceed the value of the original contract or the next value threshold. Contracts must not be extended where the total value will exceed the EU Threshold.
2. The Council is buying from a contract entered into following a proper tendering exercise by a consortium, collaboration, or similar central procurement body, of which the Council is a member and which the Council is authorised to buy from or through.
3. The work to be executed or the goods or materials to be supplied consist of repairs to, or parts for, existing proprietary machinery, where such repairs or parts are specific to that machinery OR upgrades to existing software packages.
4. Works, supplies or services are urgently needed for the immediate protection of life or property, or to maintain the immediate functioning of a public service for which the Council is responsible. In such cases the contract must only last as long as is reasonably necessary to deal with the specific emergency.
5. The Corporate Director decides that special circumstances make it appropriate and beneficial to negotiate with a single firm or that a single tender be invited. This will include occasions when it can be established that there is only a single source available or where the Corporate Director or his/her designate can demonstrate that best value for the Authority can be better achieved by not tendering.
6. Request for the Section 151 Officer, after consultation with the Group Manager, Legal Services, to vary, waive or suspend any Financial Regulation under section 1.7 of financial regulations.

Waiver Details

Ref	Subject	Value	Department	REASON FOR DECISION	CONDITIONS	Reason
FR189	Carlton Digby School - Teaching Agency Staff	£120,000.00	School	The waiver requested the continued use of a specialist agency (Teacher Active) for the provision of supply staff as required. Other options were explored but owing to the specialist need of the support it was agreed that the arrangements could continue for a 12 month period with a ceiling limit cost of £120k	It was agreed that there would need to be a longer term strategy continued use of any agency to avoid the need for an annual waiver. No further waiver request for this service will be approved	6
FR190	Chatsworth House – Supported accommodation for vulnerable adults from Framework Housing	£195,000.00	ASCPH	The waiver was for the continued use of a 23 unit supported accommodation service for vulnerable adults. This supported accommodation service providing 23 self-contained flats and an office facility at the entrance which is the base for both support staff and night time security staff. The waiver was agreed on the basis that recent tenders have shown	A plan for the procurement of the whole service should be developed and put in place.	5

				that Framework are competitive they have won tenders on quality and price. The accommodation is purpose built and resident service users wish to stay there. A VEAT (voluntary ex ante transparency) notice was issued to communicate an intention to make a direct award to the current provider. This enable other providers to identify and challenge this intention.		
FR191	Independent review of Ashwell Biomass Boiler	£175,000.00	Place	An incident occurred at a local primary school in relation to an Ashwell biomass boiler, this required an independent investigation be undertaken through the insurance company	It was agreed that this would be a one off provision any future planned work will need to comply with the fin regs	4
FR192	Supported accommodation for young people	£137,300.00	CFCS	The waiver was for continued contractual arrangements with Targeted Support to provide supported accommodation for teenage parents and young people aged 16-21. The contract formally expired on the 31.03.2015 and the waiver request was not received until 21.04.2015, it was therefore rejected.	N/A Rejected	4

FR194	Integrated Community Equipment Loans Service (ICELS) Bond	£72,000.00	ASCPH	The waiver was to request that we did not seek a bond as part of the tender for the ICELS contract. Evidence was provided on how the contract would be structured, the safeguards that are in place regarding contract on performance (especially financial performance), that assured us that the bond would not be required and the waiver was approved.	Financial issues are dealt with by a separate shared agreement or MoU between all parties or in the contract and we are only paying on delivery (as it appears to be paid for in arrears). Continued assurance that robust contract management is undertaken and documented.	6
FR195	ASSIST Programme Licence - Smoking prevention in schools	£58,000.00	ASCPH	This waiver sought permission to obtain a licence to be able to run the ASSIST programme. The running of the ASSIST programme did not require a financial regulations waiver but the licence did as the programme could not be run without the licence. This was a new model which had been trialled in other areas of the country and was the only evidence based programme at that time. On this basis the waiver was approved as it was anticipated that the market	That a review of the market and other potential providers would be undertaken to assess if a procurement process can be run to re commission this at the end of the agreement	5

				would develop in future to see more market entrants		
FR196	Garibaldi College ICT Managed Service Contract - Stone Computers	£60,000.00	School	The request was for the continued appointment of Stone computers to support the schools ICT infrastructure for 1 year whilst the school did a wholesale review of its activities. The waiver was approved in light of the length of time to undertake a tender and ensuring services near match curriculum start dates	No further extensions will be approved.	4
FR197	Contract extension for an Appropriate Adult Service	£12,000.00	ASCPH	The waiver was for a service is to provide an appropriate adult for the purposes of accompanying a vulnerable adult at a police interview regarding their involvement or suspected involvement in a criminal offence or when that person is charged with an offence. The service is on a 'pay as you go' basis and the provision of the service to vulnerable adults in the County is fully funded by County Adult Social Care and Health & Public Protection. The waiver was approved to ensure that there is no interruption in the service delivery whilst discussions conclude on funding	No further extensions will be approved.	5

				arrangements		
FR198	Provision of JCB 550-80 Lodall	£70,450.00	Place	The waiver sought authorisation to direct purchase and additional JCB Lodall. The waiver was approved as the authority in 2013 bought three new JCB Loadalls through competitive tender; these three loadalls are based at Gamston, Bilsthorpe and Stephenson Way. At Markham Moor the fleet team had a 57reg Hyundai Loader which was costing more and more every year as the salt was starting to rot/corrode nearly all the moving parts. The replacement loader would standardise the fleet making servicing and repairs a lot easier as we already carry stock.	This will be the last approval given for this type of request and future requirements should form part of asset planning and the re-procurement programme	2
FR199	Two Bloomberg licences, to access market data	£8,640.00	Resources	The waiver requested a direct award of business to Bloomberg for access to market data on shares and bonds. The current provider Morningstar gave us notice and therefore the waiver was approved due to limited time to run a full tender process for a 12 month period, however other options were explored the request to switch to Bloomberg	The agreement would only be for 12 months and therefore a procurement process would need to be undertaken for a longer term provision.	5

				was agreed.		
FR200	School hosted website - Coda Education	£30,000.00	Resources	<p>The Authority were migrating the network provision from Capita's 1C1N solution to Virgin's emCloud solution with a proposed switchover date of 1st October 2015. In order for this to happen a number of services had been identified which need to be ceased or migrated to an alternative provision. The waiver was approved on the basis that two separate G-cloud companies were contacted and engaged with to undertake this work, but after lengthy discussion they both decided against undertaking the work due to the timeframes required. Other companies have been approached but they have not shown any interest. eLearning Team Limited were subsequently approached as a known existing supplier and they have provided a quote and confirmed they are both happy to undertake the works and that they can meet the required timeframes.</p>	If there are any future requirements these would need to be considered as part of a tender process and no further waiver will be approved	6

FR201	Nottingham Post Job Fairs	£8,000.00	Resources	This waiver was a retrospective request the need arose in February 2015, but the waiver was not received until June coupled with this is that the work has already commenced. Therefore the Waiver was unauthorised.	N/A Rejected	5
FR202	Hospital Discharge - Carers Trust	£950,000.00	ASCPH	The waiver requested the continued appointment of Carers Trust to deliver a hospital discharge service in to a care at home service. This will ultimately form part of the home based services contract in future years. The waiver was approved in order that the service was not destabilised however a VEAT (voluntary ex ante transparency) notice was issued to communicate an intention to make a direct award to the current provider. This enable other providers to identify and challenge this intention.	No further waivers will be approved	5

FR203	Speech & Language Therapy Provision (SALT)	£17,500.00	CFCS	The waiver requested a 12 month extension of the SALT programme which is provided by the National Health Service (NHS) via Nottinghamshire County Health Partnerships' (CHP) Sold Services Arm. This provision was being reviewed as part of a wide-ranging Health commissioning exercise instigated via the Integrated Community Children and Young People's Healthcare (ICCYPH) Programme. On this basis the waiver was agreed	No further waivers will be approved	5
FR204	Nottinghamshire Business Rates Pool	£13,000.00	Resources	The waiver requested an extension to the existing arrangements for the Nottinghamshire Business Rates Pool as discussions were taking place around the possible formation of a Combined Authority, therefore further analysis of the impact on the Pool of Nottingham City Council joining the Pool was required. On this basis the waiver was approved as it would not make economic sense to go to the market to engage a consultant in this work given the expertise that was built during the previous	No further waivers will be approved	5

				exercise in 2012 through LG Futures.		
FR205	Moriyama	£3,500.00	Resources	The waiver requested the continued engagement of Moriyama as part of the digital first program for training and installation works. The waiver was agreed on the basis that the company have been working with us with us to install Umbraco which has now been released to the Digital team to begin the construction of the new site. Continuation of a further years support will allow us to have consistency in further development work	This cannot be an ongoing (year on year) agreement without a further procurement process taking place.	1
FR206	Proxy Voting to the pension fund	£40,000.00	Resources	The waiver requested an extension to our current arrangements as a new National contract was being put in place the waiver was agreed to allow sufficient time for the new national framework agreement to be put in place and for us to undertake a compliant procurement exercise under this.	Under no circumstances will any further extension be approved to 31 December 2016	2

FR207	The Organic Pantry	£100,000.00	Place	The waiver requested the emergency award of a contract to the Organic Pantry regard food supplies to schools our incumbent provider gave us notice on the provision of milk and potatoes. The wavier was approved as a short term emergency provision whilst a new contract was let	No further waivers would be approved	4
FR208	Barnardo's - Child Sexual Exploitation Specialist Service	£99,000.00	CFCS	The waiver sought to extend the current arrangement with Barnardo's whilst a tender process was undertaken, on this basis the waiver was agreed.	Full tender process must be run, no extensions will be permitted	5

FR209	Extension of Lan Tender - Capita	£150,000.00	Resources	<p>The wavier requested an extension of the Lan contract with Capita. The Authority currently has a contract in place with Capita for the provision of LAN hardware and software and maintenance and support of that hardware and software. This contract was due to expire on the 30th September 2015 and has an extension clause. The Contract was originally procured through a further competition using a Government Procurement Services framework agreement</p> <p>The Authority issued a further competition notice on the 11th August 2015 inviting suppliers on the Crown Commercial Services (CCS) network services framework agreement to bid for this contract. Potential bidders informed us they are unable to bid due to the fact that they would need to get their subcontractors to sign new T's & C's that match the CCS ones.</p> <p>For this reason the authority has cancelled the tender and</p>	That a tender will be run and no further extension will be requested or approved	4
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				informed bidders we will be going back out in 6 months.		
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FR210	Adults short term reporting contractors - Eyeacademy	£41,000.00	Resources	The waiver sought to award a direct contract to Eyeacademy as there was an urgent need to provide a large number of management reports for ASCH. Taking other high priority work into account the Council had insufficient internal resources to deliver the reports in the required timescale. Consequently short-term contract resource has been sought via Reeds. The waiver was approved on the basis that the Reed contract provision has been explored unsuccessfully and the requirement is urgent	The appointment cannot exceed £41k as detailed in the document, any further requirement must be referred back to Reed, or a compliant procurement process be undertaken	5
FR211	Occupational Therapy Assessments from Access Independent	£75,000.00	ASCPH	The waiver requested the appointment of a specialist to support the back log of assessments the waiver was approved on the understanding that we move forward with the implementation of a formal contract arrangement for the service going forward.	No further waivers will be approved	5
FR212	TCR Extension NHS Health Check IT Solution 2016/17	£60,000.00	ASCPH	The waiver was to request a 12 month extension of a contract provision given that a procurement process that had run could not be awarded as no bids were received so a re plan needs to take place	Any further waiver requests will be rejected	4

FR213	ASC Transformation Programme - Consultant	£10,000.00	ASCPH	The waiver requested the appointment of a specialist consultant to support a review of the 19 ASC savings proposals. The waiver was approved on the basis that Professor John Bolton has a good knowledge of NCC and ASCH and has been involved in critiquing past savings proposals and as an external speaker to leadership events. This enables the work to be completed within the required timescales without lead in times.	No further waivers would be approved	5
FR214	Council Chamber Sound System	£49,000.00	Resources	The waiver required the emergency appointment of a sound company to replace the current council chamber sound system. This was agreed on the basis of this being an emergency need.	No further waivers would be approved	6

FR215	Engagement of Local partnerships to undertake 2 Gateway Reviews	£30,000.00	Place	<p>The waiver requested the authorisation to engage Local partnerships to undertake 2 Gateway Reviews</p> <p>1) Highways and Fleet Management Joint Venture Project 2) Property Design and Delivery</p> <p>The preferred method of review is the Office of Government Commerce (OGC) Gateway Review™ Process and Local Partnerships is the only provider of assurance services accredited by Government to deliver full OGC Gateway Reviews to Local Government and other local public body on this basis the wavier was approved</p>	No further waivers would be approved	5
FR216	Gradweb-recruitment to the Nottinghamshire Public Sector Financial Management Scheme	£20,000.00	Resources	<p>The waiver requested the continued use of Grabwed in order for the recruitment of CIPFA graduates to continue for 2015/16, the waiver was agreed as the company has the systems in place to deliver the candidates and the organisation work closely with CIPFA.</p>	There will be no further waiver approved from 2016 onwards, should there be a proposal to continue to utilise a recruitment agreement to seek graduates then a market exploration exercise should be undertaken.	1

FR217	R&M & Roofing Tender - bond	£2,900,000.00	Place	The waiver requested the exclusion of a bond for this service contract. Yes. Given the advice on the terms of the contract, the contract was procuring a two year framework for the repair and replacement of roofing to the Authority's portfolio of building stock. The waiver was agreed as the call off under the framework that would be put in place was of low value	No further waivers would be approved	6
FR218	Upgrade of existing SPECS1 Safety camera	£270,176.00	ASCPH	Nottinghamshire County Council currently maintains 10 average speed camera sites across the County. Three of these sites which have now been installed since 2003 are the old style Vysionics SPECS1 cameras. The remaining sites are a mixture of the more modern Vysionics SPECS3 equipment and the most up to date Vysionics SPECS3 Vector. The waiver requested a direct award to Vysionics for the upgrade and maintenance of some of these cameras. The waiver however was rejected as It is in breach of EU competition law. With the current threshold of £172,154 (Goods and services) being in	N/A Rejected	3

				place, any project that exceeds this limit legally has to be competed in the market place.		
FR219	Social Workers Assessments - from	£128,000.00	ASCPH	The waiver requested the appointment of a specialist to support the back log of assessments the waiver was approved on the understanding that we move forward with the implementation of a formal contract arrangement for the service going forward.	No further waivers will be approved	5
FR221	One off purchase for 2x 42" Indoor freestanding travel kiosk	£22,000.00	Place	Sherwood Forest Hospitals Foundation Trust work with Nottinghamshire County Council to provide bus departure information in the entrance foyer of Mansfield Kings Mill and Newark Hospitals. This information will be displayed as real time departures from the surrounding bus stops by a large screen kiosk. The waiver is approved on the basis of low value and shared joint responsibility, and limited market	Any future requirements are to be discussed with procurement in advance to establish a route to market	5

FR222	Maintenance of Existing SPECS1 Safety Camera Systems	£1,251,790.00	Place	Waiver received to continue with the maintenance arrangements with Vysionics for the maintenance on speed camera's the waiver was rejected on the basis of the value exceeding the procurement regulations and the commitment to expenditure cannot be made at this time.	Rejected	3
FR223	Supply Ground Penetrating Radar Unit	£16,500.00	Place	The waiver was for the direct purchase of a new ground penetration radar unit the current unit had become increasingly unreliable and needed replacing. It is also an old unit and suffers from poor detection rates compared to modern equipment. Ground radar units are specialist pieces of kit, and after testing several units from different manufacturer, we have identified only one that is suitable for our needs. On this basis the waiver was approved	No further waivers would be approved	5

FR226	Clayfields House Secure Unit	£43,951.00	Place	The waiver requested that Clayfields House Secure Unit – Existing Security Systems currently being maintained by Stanley Security Solutions Ltd could be extended in 2 New Build Phases, for the existing systems to work in the new builds, enabling works are necessary compatible to all the current equipment. This forms part of a capital project where external funding for the enabling works has already been secured. The waiver was approved to ensure consistency on the security system.	Any new schemes will be required to go through a compliant procurement process	3
FR228	SystemsLink bureau - Utility Management Bureau Service	£29,000.00	Place	The waiver was requesting the authorization to go ahead with a pilot of the system provide an energy management and targeting software and support service. On the basis that this is a pilot the waiver is approved.	No further waivers would be approved	5
FR229	Procedures manual for Children's Services	£23,800.00	CFCS	The waiver requested the approval of a commitment to continue with working with TriX for the children's services procedures manual, this is a restricted market and a previous procurement process did award a contract to TriX on the basis	Any longer term plans to extend or enhance the service provision in the future must give due consideration to the requirements of procurement	5

				that it would make no economic sense to re procure an extension is agreed	legislation.	
FR230	Consultancy contract for legal support for alternative service delivery models	£39,600.00	Resources	Legal Services has appointed Bevan Brittan to act as the lead legal advisor for these projects through the Council's EMLawshare framework. As services have developed their proposals along the way, the level of legal advice support and guidance required has been greater than originally anticipated as 'retained client roles' have refined their business cases and developed their commercial service requirements with reliance on the legal guidance and support along the journey of these projects. Therefore the waiver requests to continue with the services and this approved	A short-term 6 month contract. In the meantime alternative methods of providing a longer term solution should be pursued.	5

FR231	Braille Equipment	£16,500.00	CFCS	There are an increasing number of Educationally Blind young children and pupils in the Local Authority. In order to offer access to the curriculum and the printed word, these pupils and students require specialist technology this waiver requested the purchase of 2 x Braille Note machines (£16,500) for children that have come into Notts, The waiver request was late and left no time for a procurement process to be undertaken. We had no alternative but to approve the request.	There are other suppliers in the market and these do need to be explored should there be any further requirements. This waiver was approved on this occasion but no more will be considered without conducting a compliant procurement process.	5
FR232	Prison Contract 16-17	£61,000.00	ASCPH	There is a statutory requirement to provide prison social care services. At present this is being delivered by our local health partners as part of their health care provision in the prisons. It is unclear at this time what the market for this type of service looks like and further work is needed around the detail of the current service provision. A commissioning and procurement working group is established which is looking at the long term service provision. The waiver was approved to continue the	That the project that has commenced with the procurement department on a compliant long term solution continues and that no further requests to continue with this service are presented in a waiver form.	5

				services with our health partners in the interim		
FR234	Safeguarding eLearning	£28,000.00	CFCS	The safeguarding board is funded by contributions from partner agencies and has a statutory duty to ensure that appropriate safeguarding training is available to staff it does this through a range of face to face training and e-learning opportunities. The waiver requested that a 12 month contract be directly awarded to the Virtual College to continue with the supply of this training. Given the short notice and insufficient time to run a compliant procurement process the direct award was agreed	This is only approved for 1 year to allow for a review to be undertaken, work is to be undertaken with the Category Manager to explore a longer term solution in line with financial regulations	5

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**PROCUREMENT CONTRACTS AND UPDATE ON THE ROLE OF THE
PROJECT MANAGER****Purpose of the Report Briefing**

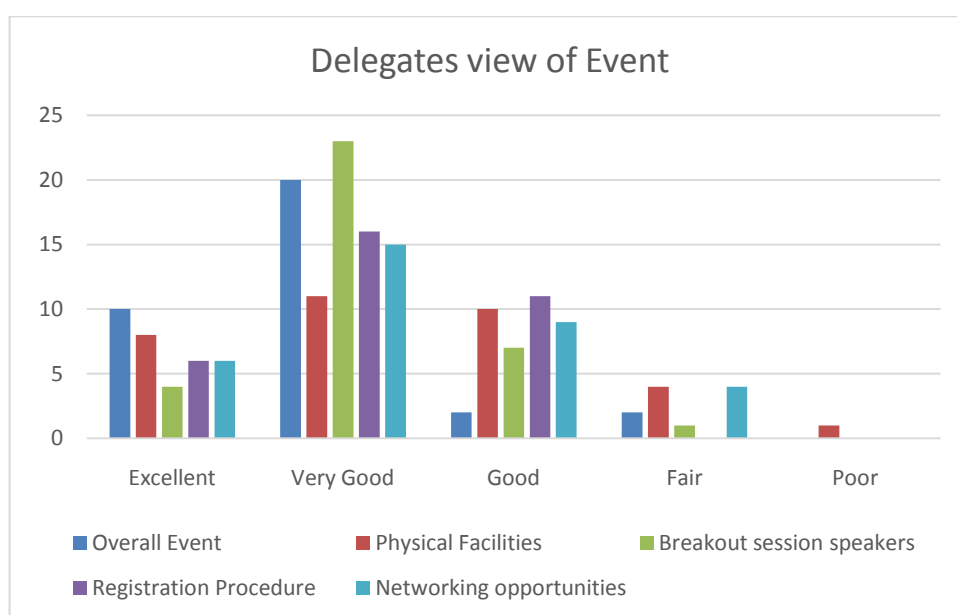
1. To provide information to Members on the progress of the procurement service, in regard to project and contract management.

Information and Advice

2. As of April 2016 we have a restructured department with the aim of delivering a targeted customer focussed service through the reduction of our overheads and strategies to reduce duplication and implement lean processors. The restructure strengthens our category management approach to procurement as we grow and develop our collaborative continuous process of providing procurement, commissioning and contract management support.
3. The restructure has also allowed for the development of a policy and strategy focussed part of the team. As we need to continuously improve our integration with both our internal and external stakeholders it is important that we drive strategic change within our service.
4. Our future services will be delivered through category teams as opposed to a pool of support staff for projects. This change will give us the opportunity to, grow specialist knowledge to support specific category areas, increase accountability, and deliver end to end project management of tenders with early involvement, guidance and planning to influence the approach to contract management.
5. Whilst the responsibility for contract management does not sit within the procurement function the category managers are actively involving themselves with more contract management activities, working with their customers in designing contract monitoring metrics, attending contract review meetings, working with their customers on contract variations, extensions, and providing tools and techniques to support their customers with approaches to meeting suppliers.
6. A key change in regard to our approach to contract management is the drive for the early involvement of contract management staff in the procurement process so that they are

designing the contract management requirements of awarded contracts and they have full engagement and oversight of how the project develops.

7. We have been developing some hints and tips on contract management to support the commissioners, these are being trialled with our children's services colleagues to ascertain the value they are adding.
8. We have also been examining our own processes regarding the transition from the tendering work to contract award and how we hand that contract over to the contract manager with a support plan if required.
9. Whilst there is no corporate approach to contract management it is recognised that we do have a role to play. A small working group has been established to agree a framework for commissioning to be used as a standard for all commissioning decisions this is seen as the essential building block in establishing improved cost effective commissioning. This will involve input from the Procurement Team. The outcome from this will be reported to a future meeting of Policy Committee.
10. We have also recognised that we need to check and challenge procurement services on what we are delivering, not only to comply with our policies and procedures but also to seek continuous improvement in what we offer our customers. We plan to do this through self-audits process every 6 month.
11. We have been and continue to work on standardised documents for and reviewing our whole approach to tendering to improve how we approach the market in order to simplify what we do.
12. In order to gain more market intelligence and start the ongoing process of wider market engagement we ran a "Doing Business with Nottinghamshire County Council" event on the 15th April. The event was in the main attended by SME's, Voluntary Sector and Micro Organisations in our region. The event was attended by 69 delegates and feedback from the attendees in the main was positive.



13. The event re-emphasised the need for the procurement team to continue to work with our supply market to develop workshops and training events that enable them to bid for contracts and to grow our markets.
14. Whilst the re-structure is now embedding the new team approach to service delivery over the past few months have been more focussed on a stronger strategic approach to what we offer. We no longer see procurement as just a tender process, for us it's about the added value we can bring as part of our offering. So whilst we are all focussed on service delivery we are also focussed on what if any additional savings can be pulled out of opportunities.
15. We have better management of savings opportunities from procurement projects which are now being reported into the finance and property committee 2015/16 savings reported here are what is achievable from the contract through having run a tender, the release of all the value is reliant on effective contract management and monitoring, therefore our focus going forward is around supporting the release of this potential

Service Area	No. tenders releasing savings	Baseline Value £	New Spend Value £	Value Saving £
ASC	4	£23,320,000	£22,391,923	£928,077
Public Health	2	£ 8,600,000	£6,342,000	£2,258,000
Place	11	£23,533,780	£21,786,167	£1,747,613
Resources	6	£9,336,848	£8,903,371	£433,477
Totals				£5,367,167.00

16. We also have a focus on negotiating early settlement discounts with suppliers (2015/16) as an additional way to seek to release costs from those contracts that we have in place.

Company	Early payment Discount	Annual Spend	Saving
Company A	2%	£750k	£15k
Company B	1.5%	£750k	£11.25k
Company C	2%	£1.6m	£32k
Company D	0.25%	£7m	£17.5k
Company E	1%	£11m	£110k
		Totals	£185,750

Next steps

17. Embed the new structure and drive forward the development of strategies and policies to support these changes.
18. To develop training and development workshops for both internal and external stakeholders.
19. To develop and implement a process for self-audit of our procurement activities for development and growth.

Statutory and Policy Implications

20. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That Members of the Audit Committee note the continued progress of the Procurement Service within the Authority.

Nigel Stevenson

Service Director – Finance, Procurement & Improvement

For any enquiries about this report please contact:

Clare Winter Group Manager, Procurement

Constitutional Comments (KK06/05/16)

21. The proposal in this report is within the remit of the audit committee

Financial Comments (SES 06/05/16)

22. There are no direct financial implications arising from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- None



**REPORT OF CORPORATE DIRECTOR, POLICY, PLANNING AND
CORPORATE SERVICES**

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme for 2016/17.

Information and Advice

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.
3. The attached work programme has been drafted in consultation with the Chairman and Vice-Chairman, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.
4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are

described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the committee's work programme be noted, and consideration be given to any changes which the committee wishes to make.

Jayne Francis-Ward
Corporate Director, Policy, Planning and Corporate Services

For any enquiries about this report please contact: Sarah Ashton x 73962

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

AUDIT COMMITTEE - WORK PROGRAMME

<u>Report Title</u>	<u>Brief summary of agenda item</u>	<u>For Decision or Information</u>	<u>Lead Officer</u>	<u>Report Author</u>
7 September 2016				
External Audit Annual Governance Reports	To receive for information, and comment, the External Auditor's Annual Governance Reports on the County Council and Pension Fund, prior to these being forwarded to Full Council for approval	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Review of Financial Regulations	To review and update the Financial Regulations	Decision	Nigel Stevenson	Glen Bicknell
Briefing – Implementation of Internal Audit's high priority recommendations	To provide an update on the implementation status of the high priority recommendations made by Internal Audit	Information	Rob Disney	Rob Disney
7 December 2016				
Internal Audit Progress report for 2016/17	To provide details of internal audit work completed to the end of September 2016	Information	Rob Disney	Rob Disney
Review of Financial Regulations	To review and update the Financial Regulations	Decision	Nigel Stevenson	Glen Bicknell
External Audit – Annual Audit Letter 2015/16	KPMG summarises the findings from work carried out by the external auditors over the last financial year (2015/16)	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Briefing – Private Finance Initiative	To provide an update on the current status and operation of the Council's Private Finance Initiative contracts	Information	Rob Disney	Rob Disney
8 March 2017				
Statement of Accounts 2016/17 – Accounting Policies	To outline proposed changes to the accounting policies used for the Authority's Statement of Accounts for 2016/17 for review and approval	Decision	Nigel Stevenson	Glen Bicknell
Internal Audit Plan for 2017/18	Report from the Head of Internal Audit providing details of the planned work for 2017/18	Information	Rob Disney	Rob Disney

External Audit Plan 2016/17	To provide information on the External Auditors' Audit Plan for their 2016/17 Audit.	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Certification of Grants and Returns 2015/16	To provide information on the External Auditors' Annual Report 2015/16 on the certification of Grants and Returns	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Transport Infrastructure Assets Project	To provide Information on the project to add Transport Infrastructure Assets to the account from 2016/17	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	Rob Disney	Rob Disney
14 June 2017				
Annual External Audit Fees	To inform Members of proposed external audit fees for 2017/18	Information	Nigel Stevenson	Glen Bicknell / External Auditor
Mandatory Inquiries	To provide information on the External Auditors' requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations as part of their audit.	Decision	Nigel Stevenson	Nigel Stevenson
Internal Audit Report 2016/17	Report of the Head of Internal Audit providing an internal audit opinion on the Authority's level of internal control during 2016/17	Information	John Bailey	John Bailey
Financial Regulations Waivers 2016/17	Inform Members of any braches of / and waivers of the Council's Financial Regulations	Information	Clare Winter	Clare Winter
Draft Annual Governance Statement 2016/17	Review and comment on the draft Annual Governance Statement prior to being forwarded on to Full Council to accompany the Statement of Accounts	Decision	John Bailey	John Bailey

Annual Fraud Report 2016/17	Inform Members of any detected fraud issues	Information	John Bailey	John Bailey
Briefing – Subject TBA	Information given to Members to help them understand the Audit process	Information	John Bailey	John Bailey

